



Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

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Summary

The United States recognized the independence of Armenia, Azerbaijan, and Georgia when the former Soviet Union broke up at the end of 1991. The United States has fostered these states' ties with the West in part to end the dependence of these states on Russia for trade, security, and other relations. The United States has pursued close ties with Armenia to encourage its democratization and because of concerns by Armenian-Americans and others over its fate. Close ties with Georgia have evolved from U.S. contacts with its pro-Western leadership. The former Bush Administration supported U.S. private investment in Azerbaijan's energy sector as a means of increasing the diversity of world energy suppliers. The United States has been active in diplomatic efforts to resolve regional conflicts in the region. As part of the U.S. global war on terror, the U.S. military in 2002 began providing equipment and training for Georgia's military and security forces. Azerbaijani troops participated in stabilization efforts in Afghanistan and Iraq, and Armenian and Georgian personnel served in Iraq. The South Caucasian troops serving in Iraq had departed by the end of 2008.

On August 7, 2008, Russia and Georgia went to war involving Georgia's breakaway regions of Abkhazia and South Ossetia. Russian troops quickly swept into Georgia, destroyed infrastructure, and tightened their de facto control over the breakaway regions before a ceasefire was agreed to on August 15. The conflict is likely to have long-term effects on security dynamics in the region and beyond. Russia recognized the independence of Abkhazia and South Ossetia, but the United States and nearly all other nations refused to follow suit. Russia established bases in Abkhazia and South Ossetia that buttress its long-time military presence in Armenia. Georgia's military capabilities were at least temporarily degraded by the conflict, and Georgia will need substantial military assistance to rebuild its forces. The conflict temporarily disrupted railway transport of Azerbaijani oil to Black Sea ports and some oil and gas pipeline shipments, although no major pipelines were damaged. Although there were some concerns that the South Caucasus had become less stable as a source and transit area for oil and gas, Kazakhstan later began to barge oil across the Caspian Sea for transit westward, and the European Union still planned eventually to build the so-called Nabucco gas pipeline from Azerbaijan to Austria.

Key issues in the 111th Congress regarding the South Caucasus are likely to focus on supporting Georgia's integration into Western institutions, including NATO; Azerbaijan's energy development; and Armenia's independence and economic development. At the same time, concerns might include the status of human rights and democratization in the countries; the on-going Armenia-Azerbaijan conflict over the breakaway Nagorno Karabakh region; and threats posed to Georgia and the region by Russia's military incursion in August 2008 and its diplomatic recognition of South Ossetia and Abkhazia. Congress will likely scrutinize Armenia's and Georgia's reform progress as recipients of Millennium Challenge Account grants. Some Members of Congress believe that the United States should provide greater attention to the region's increasing role as an east-west trade and security corridor linking the Black Sea and Caspian Sea regions, and to Armenia's inclusion in such links. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, and Islamic extremism and to bolster the independence of the states. Others urge caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts.

Contents

Most Recent Developments.....	1
Background	1
Overview of U.S. Policy Concerns	2
Post-September 11	3
Operations in Iraq	4
After the August 2008 Russia-Georgia Conflict	4
The South Caucasus's External Security Context.....	5
Russian Involvement in the Region	5
Military-Strategic Interests.....	6
Caspian Energy Resources	7
The Roles of Turkey, Iran, and Others	8
Obstacles to Peace and Independence.....	9
Regional Tensions and Conflicts.....	9
Nagorno Karabakh Conflict	10
Civil and Ethnic Conflict in Georgia.....	11
Economic Conditions, Blockades, and Stoppages	17
Democratization Problems and Progress.....	18
Armenia.....	18
Azerbaijan	19
Georgia.....	21
U.S. Aid Overview	23
U.S. Assistance After the Russia-Georgia Conflict.....	24
U.S. Security Assistance.....	25
U.S. Trade and Investment	27
Energy Resources and U.S. Policy.....	28
Building the Baku-Tbilisi-Ceyhan and South Caucasus Pipelines	28
Concerns of the European Union.....	29
Regional Energy Cooperation with Iran.....	31

Figures

Figure 1. Map of the Region.....	32
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Tables

Table 1. U.S. Foreign Aid to the Region, FY1992-FY2007, FY2008, FY2009, and the FY2010 Request	31
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Contacts

Author Contact Information	32
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Most Recent Developments

At a press conference after meeting with Russian President Dmitriy Medvedev on July 6, 2009, President Obama reported that he had “reiterated my firm belief that Georgia’s sovereignty and territorial integrity must be respected. Yet even as we work through our disagreements on Georgia’s borders, we do agree that no one has an interest in renewed military conflict.”¹ In Georgia, many officials and others viewed the meeting positively as lessening the chances of renewed Russia-Georgia conflict and as a reaffirmation of the U.S. commitment to Georgia.

Some Azerbaijani media have reported that hundreds of ethnic Azerbaijani supporters of Mirhoseyn Musavi (an ethnic Azerbaijani who lost the presidential election in Iran in mid-June) have fled to Azerbaijan to escape government-sanctioned violence against peaceful protests and other persecution. On June 16, Azerbaijan’s President Ilkham Aliyev congratulated Mahmud Ahmadinejad on his election victory, and the foreign minister urged the “speedy return” of stability and order in neighboring Iran. The Azerbaijani Azadliq [Freedom] opposition bloc on June 24 called on the Iranian government to halt its violence against peaceful demonstrators.

One difficulty hindering construction of the so-called Nabucco gas pipeline from Turkey to Austria appeared to be worked out in late June 2009, when the European Union announced that it had reached an agreement with Turkey and the members of the Nabucco consortium that permitted Turkey to drop its demand for the right to 15% of the natural gas pumped through the link at preferential prices, reportedly in return for some assurances on the security of supplies. An agreement on Nabucco was signed by five transit states in Turkey on July 13, 2009.

Azerbaijan’s State Oil Company (SOCAR) and Russia’s Gazprom gas firm agreed in July 2009 that SOCAR would send 1.7 billion cubic feet of gas per year to Russia beginning in 2010. The gas would be transported by a 140-mile gas pipeline from Baku to Russia’s Dagestan Republic that was used until 2007 to supply Azerbaijan with up to 282.5 billion cubic feet of gas per year. SOCAR indicated that the volume of gas transported to Russia could increase in future years. The small amount of gas initially involved is not expected to impact plans for supplying Nabucco.

Background

Armenia, Azerbaijan, and Georgia are located south of the Caucasus Mountains that form part of Russia’s borders (see **Figure 1.**). The South Caucasus states served historically as a north-south and east-west trade and transport “land bridge” linking Europe to the Middle East and Asia, over which the Russian Empire and others at various times endeavored to gain control. In ancient as well as more recent times, oil and natural gas resources in Azerbaijan attracted outside interest. All three peoples can point to periods of past autonomy or self-government. After the Russian Empire collapsed in 1917, all three states declared independence, but by early 1921 all had been re-conquered by Russia’s Red (Communist) Army. They regained independence when the Soviet Union collapsed in 1991.²

¹ The White House. Office of the Press Secretary. *Press Conference by President Obama and President Medvedev of Russia*, July 6, 2009.

² For background, see CRS Report RS20812, *Armenia Update*, by Carol Migdalovitz; CRS Report 97-522, *Azerbaijan*: (continued...)

Overview of U.S. Policy Concerns

By the end of 1991, the United States had recognized the independence of all the former Soviet republics. The United States pursued close ties with Armenia, because of its profession of democratic principles, and concerns by Armenian-Americans and others over its fate. The United States pursued close ties with Georgia after Eduard Shevardnadze (formerly a pro-Western Soviet foreign minister) assumed power there in early 1992. Faced with calls in Congress and elsewhere for a U.S. aid policy for the Eurasian states, then-President George H.W. Bush sent the FREEDOM Support Act to Congress, which was signed with amendments into law in October 1992 (P.L. 102-511).

The Caucasus Region: Basic Facts

Area: The region is slightly larger than Syria: Armenia is 11,620 sq. mi.; Azerbaijan is 33,774 sq. mi.; Georgia is 26,872 sq. mi.

Population: 15.83 million, slightly more than Kazakhstan; Armenia: 2.97 m.; Azerbaijan: 8.24 m.; Georgia: 4.62 m. (The World Factbook, July 2009 est.). Over a million people from the region are migrant workers in Russia and elsewhere.

GDP: \$114.17 billion: Armenia: \$18.92 b.; Azerbaijan: \$73.65 b.; Georgia: \$21.6 b. (World Factbook, 2008 est., purchasing power parity)

Assistant Secretary of State Daniel Fried testified in June 2008 that “we want to help the nations of this region travel along the same path toward freedom, democracy, and market-based economies that so many of their neighbors to the West have traveled.... We do not believe that any outside power—neither Russia nor any other—should have a sphere of influence over these countries. No outside power should be able to threaten, pressure, or block the sovereign choice of these nations to join with the institutions of Europe and the transatlantic family.”³

In addition, U.S. policy toward the South Caucasus states has included promoting the resolution of conflicts between Armenia and Azerbaijan over Azerbaijan’s breakaway Nagorno Karabakh (NK) region and between Georgia and its breakaway regions of Abkhazia and South Ossetia (resolving these latter conflicts became much more difficult following the August 2008 conflict; see below). Since 1993, successive U.S. Special Negotiators for Eurasian Conflicts have helped in various ways to try to settle these conflicts. (In early 2006, the State Department eliminated this post and divided its responsibilities among the Deputy Assistant Secretary of State and the Office of Caucasus Affairs and Regional Conflicts.)⁴ Congressional concerns about the NK conflict led to the inclusion of Section 907 in the FREEDOM Support Act, which prohibits U.S. government-to-government assistance to Azerbaijan, except for non-proliferation and disarmament activities, until the President determines that Azerbaijan has taken “demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK” (on waiver authority, see below). Provisions in FY1996, FY1998, and FY1999 legislation eased the prohibition by providing for humanitarian, democratization, and business aid exemptions.

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Recent Developments and U.S. Interests, by Jim Nichol.

³ “U.S. Says Aliyev, Kocharyan Must Show ‘Political Will,’” *RFE/RL*, June 23, 2006. U.S. House of Representatives. Committee on Foreign Affairs. Hearing: The Caucasus, Frozen Conflicts and Closed Borders. *Testimony of Daniel Fried*, June 18, 2008.

⁴ According to a report by the State Department’s Office of the Inspector General, the added duties of the Office of Caucasus Affairs and Regional Conflicts and the relevant deputy assistant secretary were not accompanied by increased staff support, and “some miscommunications and divergence of expectations between [the State Department] and the [U.S. Embassy in Azerbaijan] have occurred as a consequence.” U.S. Department of State. *Report of Inspection: Embassy Baku, Azerbaijan*, Report Number ISP-I-07-40A, September 2007.

Some observers argue that developments in the South Caucasus are largely marginal to U.S. strategic interests. They urge great caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts, and some argue that, since the European Union has recognized the region as part of its “neighborhood,” it rightfully should play a major role. Some observers argue that the U.S. interest in democratization should not be subordinated to interests in energy and anti-terrorism.⁵

Other observers believe that U.S. policy now requires more active engagement in the region. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, and Islamic extremism and to bolster the independence of the states. Some argue that such enhanced U.S. relations also would serve to “contain” Russian and Iranian influence and that close U.S. ties with Azerbaijan would benefit U.S. relations with other Islamic countries, particularly Turkey and the Central Asian states. They also point to the prompt support offered to the United States by the regional states in the aftermath of the September 11, 2001, attacks by al Qaeda on the United States. Some argue that energy resources in the Caspian region are a central U.S. strategic interest, because Azerbaijani and Central Asian oil and natural gas deliveries could somewhat lessen Western energy dependency on Russia and the Middle East (see below, “Caspian Energy Resources”).

Post-September 11

In the wake of the September 11, 2001, terrorist attacks on the United States, the former Bush Administration obtained quick pledges from the three South Caucasian states to support Operation Enduring Freedom (OEF) in Afghanistan, including overflight rights and Azerbaijan’s and Georgia’s offers of airbase and other support. Congressional attitudes toward Azerbaijan and Section 907 shifted, resulting in presidential waiver authority being incorporated into Foreign Operations Appropriations for FY2002 (H.R. 2506; P.L. 107-115). The President may use the waiver authority if he certifies that U.S. aid supports U.S. counter-terrorism efforts, supports the operational readiness of the armed forces, is important for Azerbaijan’s border security, and will not harm NK peace talks or be used for offensive purposes against Armenia. The waiver may be renewed annually, and sixty days after the exercise of the waiver, the President must report to Congress on the nature of aid to be provided to Azerbaijan, the military balance between Armenia and Azerbaijan and the effects of U.S. aid on that balance, the status of Armenia-Azerbaijan peace talks, and the effects of U.S. aid on those talks. The waiver authority has been exercised annually. The outgoing Bush Administration exercised the waiver on January 16, 2009.

Since late 2002, Azerbaijan has contributed troops for peacekeeping in Afghanistan. In October 2008, Azerbaijan’s legislature approved doubling the number of troops deployed to Afghanistan to about 100. Georgia contributed about 50 troops during Afghan elections in late 2004-early 2005. In June 2009, Georgia announced that 500 troops would be sent to Afghanistan in 2010.

⁵ U.S. House of Representatives. Committee on Foreign Relations. Subcommittee on International Organizations, Human Rights, and Oversight. *Ideals vs. Reality in Human Rights and U.S. Foreign Policy: The Cases of Azerbaijan, Cuba, and Egypt*, July 12, 2007; U.S. Commission on Security and Cooperation in Europe. *Energy and Democracy*, July 23, 2007.

Operations in Iraq

Azerbaijan and Georgia were among the countries that openly pledged to support the U.S.-led Operation Iraqi Freedom (OIF), with both offering the use of their airbases, and to assist the United States in re-building Iraq. Both countries agreed to participate, subject to U.S. financial support, in the multinational stabilization force for Iraq. In August 2003, both Azerbaijan and Georgia dispatched forces to Iraq. Azerbaijan's 150 troops pulled out in late 2008. Georgia augmented its troops over time until 2,000 were serving in 2007-2008, the third-largest number of troops in Iraq, after the United States and the United Kingdom. Virtually all of these troops were pulled out in August 2008 in connection with the Russia-Georgia conflict (see below). Armenia began sending personnel to Iraq in January 2005. Armenia's 46 were pulled out in late 2008.

After the August 2008 Russia-Georgia Conflict

The former Bush Administration's strong support for Georgia was reflected in the U.S.-Georgia Charter on Strategic Partnership, signed in January 2009, which states that "our two countries share a vital interest in a strong, independent, sovereign, unified, and democratic Georgia." The accord is similar to a U.S.-Ukraine Charter signed in December 2008 and a U.S.-Baltic Charter signed in 1998 with Estonia, Latvia, and Lithuania. In the security realm, "the United States and Georgia intend to expand the scope of their ongoing defense and security cooperation programs to defeat [threats to global peace and stability] and to promote peace and stability." Such cooperation will "increase Georgian capabilities and ... strengthen Georgia's candidacy for NATO membership." In the economic realm, the two countries "intend to pursue an Enhanced Bilateral Investment Treaty, to expand Georgian access to the General System of Preferences, and to explore the possibility of a Free-Trade Agreement." Energy security goals include "increasing Georgia's energy production, enhanc[ing] energy efficiency, and increas[ing] the physical security of energy transit through Georgia to European markets." In the realm of democratization, the two countries "pledge cooperation to bolster independent media, freedom of expression, and access to objective news and information," and to further strengthen the rule of law. The United States pledged to train judges, prosecutors, defense lawyers, and police officers.⁶

Deputy Assistant Secretary Bryza stressed that the charter did not provide security guarantees to Georgia. According to some observers, the Charter aimed to reaffirm the United States' high strategic interest in Georgia's fate, after it had appeared that the United States (and the West) in recent months had acquiesced to increased Russian dominance in the South Caucasus.⁷

While these goals have received support from most policymakers, some observers have called for a re-evaluation of some aspects of U.S. support for Georgia. These critics have argued that many U.S. policymakers have been captivated by Saakashvili's charismatic personality and pledges to democratize and have tended to overlook his bellicosity. They also have suggested that the United States should not have unquestionably backed Georgia's territorial integrity, but should rather have encouraged reconciliation and the consideration of options short of the reintegration of the regions into Georgia.⁸

⁶ U.S. Department of State. *U.S.-Georgia Charter on Strategic Partnership*, January 9, 2009.

⁷ David J. Smith, "US-Georgia Charter is Historic," Potomac Institute for Policy Studies, January 12, 2009.

⁸ Alexander Cooley and Lincoln Mitchell, "No Way to Treat Our Friends: Recasting Recent U.S.-Georgian Relations," *The Washington Quarterly*, January 2009, pp. 27-41; "A Georgia-Russia War Discussion between Gordon Hahn and (continued...)"

The South Caucasus's External Security Context

Russian Involvement in the Region

After Vladimir Putin became president in 1999, Russia appeared to place great strategic importance on increasing, or at least maintaining, influence in the South Caucasus region. Several developments since 2003, however, appeared to complicate these influence efforts. These included the “rose revolution” in Georgia that appeared to usher in democratic reforms, NATO’s increased ties with the regional states, the completion of the Baku-Tbilisi-Ceyhan oil pipeline and an associated gas pipeline, Russia’s ongoing concerns about security in its North Caucasus regions (including Chechnya), and Russia’s agreement to close its remaining military bases in Georgia. This declining Russian influence appeared to be reversed as a result of the August 2008 Russia-Georgia conflict.

The Putin-Medvedev leadership has appeared to place its highest priority on exercising influence in the region in the military-strategic sphere and slightly less priority on influence in the economic sphere (particularly energy) and domestic political spheres. Russia has viewed Islamic fundamentalism as a growing threat to the region, but has cooperated with Iran on some issues to counter Turkish and U.S. influence. Russia has tried to stop ethnic “undesirables,” drugs, weapons, and other contraband from entering its borders. It has quashed separatism in its North Caucasus areas while backing it in the South Caucasus.

The South Caucasian states have responded in various ways to Russian influence. Armenia has close security and economic ties with Russia, given its unresolved NK conflict and grievances against Turkey. Azerbaijan has been concerned about Russia’s ties with Armenia, has worked to ensure that its energy resources are not controlled by Russia, and has limited Russia’s military presence. Georgia has endeavored to eliminate the Russian military presence on its soil (including the breakaway regions). Azerbaijan has appeared to value having some cooperative relations with Russia, and has criticized Georgia’s inability to maintain such ties with Russia.

NATO’s September 21, 2006, approval of an “Intensified Dialogue” with Georgia on reforms needed that might lead to membership appeared to contribute to heightened concerns in Russia about NATO enlargement and about an increased U.S. presence in the South Caucasus. Later that month, Georgian-Russian tensions appeared to come to a head after Georgia arrested four Russian servicemen on charges of espionage and plotting to overthrow the Saakashvili government. Although Georgia soon handed over the servicemen, Russia retaliated in a form viewed as troubling by many international observers, including cutting off financial flows to Georgia, severing direct transport and postal links (Russia had banned imports of Georgian wine, mineral water, and other agricultural products in spring 2006), ending the issuing of visas, raiding ethnic Georgian-owned businesses, and expelling hundreds of Georgian migrant workers.

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Johnson’s Russia List,” *Russia: Other Points of View*, October 17, 2008, at <http://www.russiaotherpointsofview.com>.

Military-Strategic Interests

Russia's armed presence in the South Caucasus has been multifaceted, including thousands of military base personnel, "peacekeepers," and border troops. The first step by Russia in maintaining a military presence in the region was the signing of the Commonwealth of Independent States (CIS) Collective Security Treaty (CST) by Armenia, Russia, and others in 1992, which pledges the members to consult in the event of a threat to one or several members, and to provide mutual aid if attacked (Azerbaijan and Georgia withdrew in 1999). Russia also secured permission for two military bases in Armenia and four in Georgia. Russian border troops guard Armenia's borders with Turkey and Iran. The total number of Russian troops in Armenia has been estimated at about 3,200. Armenia has argued that its Russian bases provide for regional stability by protecting it from attack. About 88,000 Russian troops also are stationed nearby in the North Caucasus, and some naval forces of the Caspian Sea Flotilla are located in Astrakhan in Russia.⁹ In 1993, Azerbaijan was the first Eurasian state to get Russian troops to withdraw, except at the Qabala (Gabala) radar site in northern Azerbaijan. (Giving up on closing the site, in January 2002 Azerbaijan signed a 10-year lease agreement with Russia permitting up to 1,500 troops there.)

After the September 11, 2001 terrorist attacks in the United States, Russia stepped up its claims that Georgia harbored Chechen terrorists (with links to Al Qaeda) who used Georgia as a staging ground for attacks into Chechnya. The United States expressed "unequivocal opposition" to military intervention by Russia inside Georgia. Georgia launched a policing effort in its northern Pankisi Gorge in late 2002 that somewhat reduced tensions over this issue. In April 2006, Azerbaijan convicted 16 people on charges that they had received terrorist training from Al Qaeda operatives in the Pankisi Gorge. Russia's security service reported at the end of November 2006 that it had killed al Qaeda member Faris Yusef Amirat (aliases included Abu Haf and Amzhet). It alleged that he had hidden in the Pankisi Gorge during the winter of 2005-2006, had operated in Chechnya in the summer of 2006, and was returning to the Gorge when he was killed in Russia's Dagestan region.¹⁰

Russian "Peacekeepers" and Bases in Georgia

As part of ceasefire agreements between Georgia and its breakaway regions in the early 1990s, Russia as the mediator sent military "peacekeepers" to Abkhazia and South Ossetia. Russia's "peacekeeping" role at that time received at least tacit approval from world governments and international organizations. For many years, Georgian authorities voiced dissatisfaction with the role of the "peacekeepers" in facilitating a peace settlement and called for them to either be replaced or supplemented by a wider international peacekeeping force (see also below, "Civil and Ethnic Conflict in Georgia").

In the early 1990s, Georgia was pressured by Russia to agree to the long-term presence of four Russian military bases. By the late 1990s, however, many in Georgia were calling for the bases to close, and this received support from European countries during talks over amending the Conventional Armed Forces in Europe (CFE) Treaty. In 1999, Russia and Georgia agreed to provisions of the amended CFE Treaty calling for Russia to reduce weaponry at its four bases in

⁹ *The Military Balance 2009*. London: International Institute of Strategic Studies, February 5, 2009.

¹⁰ CEDR, November 27, 2006, Doc. No. CEP-358003. For background, see CRS Report RS21319, *Georgia's Pankisi Gorge: Russian Concerns and U.S. Interests*, by Jim Nichol.

Georgia, to close two of the bases (at Gudauta and Vaziani) by July 2001, and to complete negotiations during 2000 on the status of the other two bases (at Batumi and Akhalkalaki). NATO signatories hesitated to ratify the amended Treaty until Russia satisfied these and other conditions. In July 2001, Georgia reported that Russia had turned over the Vaziani base. Russia declared in June 2002 that it had closed its Gudauta base, but that 320 troops would remain to support Russian “peacekeepers” taking leave at the base.¹¹ Georgia objected to this stance (see below).

The Georgian legislature in March 2005 passed a resolution calling for Russia to agree by mid-May on closing the bases or face various restrictions on base operations. This pressure, and perhaps the visit by then-President Bush to Georgia in May 2005, spurred Russia to agree with Georgia in late May on setting the end of 2008 as the deadline for closing the bases. Putin explained that his military General Staff had assured him that the bases were Cold War-era relics of no strategic importance to Russia.¹² In June 2007, Russia formally handed over the Akhalkalaki base to Georgia’s control. In November 2007, the Russian Foreign Ministry proclaimed that the Batumi base had been closed and that Russia had “fully” accomplished its obligations to Georgia on the withdrawal of military facilities. Georgia continued to protest that the Gudauta base had not been handed over to Georgia’s control.

Not even one year had passed since Russia’s base closures when it announced—following the August 2008 Russia-Georgia conflict—that two army brigades, each consisting of approximately 3,700 troops, would be deployed to new military bases in Abkhazia and South Ossetia. These troops reportedly were soon fully deployed in temporary encampments pending the construction of permanent buildings. In addition to these army brigades, Russian border troops reportedly were deployed along regional borders with Georgia, along which engineer brigades were creating revetments, trenches, and minefields. A part of the Black Sea Fleet also was planned to be deployed to Ochamchire in Abkhazia.¹³ In May 2009, Russia announced that the number of military troops would be reduced to about 1,700-1,800 in each region because of economic problems in Russia. However, they have been bolstered by the deployment of 1,300 border guards to each region.

Caspian Energy Resources

Russia has tried to play a dominant role in future oil production and transportation in the Caspian Sea region. A major lever has been the prices it charges the South Caucasian countries for gas. In 2006, Russia charged all three regional states much more for gas. Armenia agreed to relinquish various energy assets to Russian firms as partial payment for this price increase. Some critics have alleged that Russia now has virtual control over Armenia’s energy supplies. Russia again hiked gas prices in 2007. Georgia negotiated an agreement to receive some Azerbaijani gas via the new South Caucasus Pipeline (SCP, see below) and another small existing pipeline. It also agreed to continue to purchase some higher-priced gas from Gazprom. Russia’s requests for

¹¹ A Russian military analyst reported in early 2007 that there also were nine aircraft and ten helicopters at “airbase Gudauta.” *CEDR*, May 3, 2007, Doc. No. CEP-305001.

¹² *CEDR*, May 24, 2005, Doc. No. CEP-378001. In June 2007, two Russian mountain brigades consisting of about 4,500 troops began to deploy near Georgia’s borders, ostensibly to enhance security after the base closures. *RIA Novosti*, June 26, 2007.

¹³ Pavel Felgenhauer, “Georgian Officials Admit They Misread Russian Intentions,” *Eurasia Daily Monitor*, October 30, 2008. Felgenhauer, a Russian military analyst, warns that the total number of Russian troops and weapons deployed in the regions may well be more than the number of troops and weapons possessed by Georgia. See also *CEDR*, January 22, 2009, Doc. No. CEP-548005; January 26, 2009, Doc. No. CEP-950277.

higher prices and reductions in the amounts of gas and electricity supplied to Azerbaijan led President Aliyev to announce that the country would no longer purchase Russian gas. In the Winter of 2007-2008, Georgia again had to purchase some gas from Gazprom at higher prices, to supplement that supplied by Azerbaijan. Following the August 2008 Russia-Georgia conflict, Gazprom's arrangement with Georgia involving the transit of Russian gas to Armenia remained in place. Armenia pays a share of gas to Georgia as a transit fee. (See also below, "Energy Resources and U.S. Policy," for information on Russia's efforts to block the development of competing regional energy pipelines.)

The Roles of Turkey, Iran, and Others

The United States has generally viewed Turkey as able to foster pro-Western policies and discourage Iranian interference in the South Caucasus states, though favoring Azerbaijan in the NK conflict. Critics of Turkey's larger role in the region caution that the United States and NATO might be drawn by their ties with Turkey into regional imbroglios. Turkey seeks good relations with Azerbaijan and Georgia and some contacts with Armenia, while trying to limit Russian and Iranian influence. Azerbaijan likewise has viewed Turkey as a major ally against such influence, and as a balance to Armenia's ties with Russia. Armenia is a member of the Black Sea Economic Cooperation organization, along with Turkey, and the two states have established consular relations. Obstacles to better Armenian-Turkish relations have included Turkey's rejection that there was an Armenian genocide in 1915-1923 and its support for Azerbaijan in the NK conflict.¹⁴ Georgia has an abiding interest in ties with the approximately one million Georgians residing in Turkey and the approximately 50,000 residing in Iran, and has signed friendship treaties with both states. Turkey is one of Georgia's primary trade partners. New pipelines delivering oil and gas westward from the Caspian Sea reflect cooperation between Azerbaijan, Georgia, and Turkey.

Iran's goals in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence (Iran's goal of containing Russia conflicts with its cooperation with Russia on these interests), ending regional instability that might threaten its own territorial integrity, and building economic links. A major share of the world's Azerbaijanis reside in Iran (estimates range from 6-12 million), as well as about 200,000 Armenians. Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown. Azerbaijani elites fear Iranian-supported Islamic extremism and object to Iranian support to Armenia. Iran has growing trade ties with Armenia and Georgia, but its trade with Azerbaijan has declined. To block the West and Azerbaijan from developing Caspian Sea energy, Iran long has insisted on either common control by the littoral states or the division of the seabed into five equal sectors. Some thawing in Azerbaijani-Iranian relations occurred in 2005-2006 with the long-delayed opening of an Azerbaijani consulate in Tabriz and leadership summits.

In recent months, Iran has boosted its diplomacy in the region, perhaps to counter growing international concern about its nuclear programs and to counter U.S. influence. Iran has proposed to build a railroad link to Armenia and another to Azerbaijan. The latter railroad will permit not

¹⁴ On April 23, 2009, the Armenian and Turkish foreign ministries (with the Swiss Federal Department of Foreign Affairs acting as mediator) made a joint statement of agreement on a "road map" to better relations that reportedly would include eventually opening borders and establishing diplomatic relations. However, Turkey's support for Azerbaijan in the NK conflict may complicate efforts to meet the goals of the road map. During a visit to Azerbaijan, Prime Minister Recep Tayyip Erdogan stated that "the occupation of NK is a cause, and the closure of the [Turkish] border is an effect. Without the occupation ending, the gates will not be opened." *Today's Zaman*, May 14, 2009.

only greater trade with Azerbaijan but also with Russia. Iran's efforts to improve relations with Azerbaijan have appeared to be complicated, however, by its reported suppression of rising dissent among "Southern Azerbaijanis." U.S. policy aims to contain Iran's threats to U.S. interests.¹⁵

Among non-bordering states, the United States and European states are the most influential in the South Caucasus in terms of aid, trade, exchanges, and other ties. U.S. and European goals in the region are broadly compatible, involving integrating it into the West and preventing an anti-Western orientation, opening it to trade and transport, obtaining energy resources, and helping it become peaceful, stable, and democratic. As part of its European Neighborhood Policy, the EU signed Action Plans with the three regional states in November 2006 that it hoped would foster both European and regional integration. The EU took the international lead in mediating the August 2008 Russia-Georgia conflict and in deploying observers after the ceasefire (see below). The EU proposed a Eastern Partnership to deepen ties with the South Caucasus states, and elements of this proposal were strengthened after the August 2008 Russia-Georgia conflict. Under the Eastern Partnership, the EU plans to work out "deep and comprehensive free trade agreements with those countries willing and able to enter into a deeper engagement, gradual integration in the EU economy, and ... easier travel to the EU through gradual visa liberalization."¹⁶

The South Caucasus region has developed some economic and political ties with other Black Sea and Caspian Sea littoral states, besides those discussed above. Azerbaijan shares with Central Asian states common linguistic and religious ties and concerns about some common neighbors (Iran and Russia). The South Caucasian and Central Asian states are concerned about ongoing terrorist threats and drug trafficking from Afghanistan. Central Asia's increasing ties with the South Caucasus make it more dependent on stability in the wider region.

Obstacles to Peace and Independence

Regional Tensions and Conflicts

Ethnic conflicts have kept the South Caucasus states from fully partaking in peace, stability, and economic development since the Soviet collapse in 1991, some observers lament. The countries are faced with on-going budgetary burdens of arms races and caring for refugees and displaced persons. Other costs of ethnic conflict include threats to bordering states of widening conflict and the limited ability of the region or outside states to fully exploit energy resources or trade/transportation networks.

U.S. and international efforts to foster peace and the continued independence of the South Caucasus states face daunting challenges. The region has been the most unstable part of the former Soviet Union in terms of the numbers, intensity, and length of its ethnic and civil conflicts. The ruling nationalities in the three states are culturally rather insular and harbor various grievances against each other. This is particularly the case between Armenia and Azerbaijan, where discord has led to the virtually complete displacement of ethnic Armenians from Azerbaijan and vice versa. The main languages in the three states are dissimilar (also, those who

¹⁵ See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

¹⁶ EU. European Commission. "Eastern Partnership," at http://ec.europa.eu/external_relations/eastern/index_en.htm.

generally consider themselves Georgians—Kartvelians, Mingrelians, and Svans—speak dissimilar languages). The borders of the countries do not coincide with eponymous ethnic populations. Efforts by ethnic minorities to secede are primary security concerns for all three states. NK relies on economic support from Armenia, and Abkhazia and South Ossetia from Russia.

Nagorno Karabakh Conflict

Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in about 15,000 casualties and hundreds of thousands of refugees and displaced persons in Armenia and Azerbaijan. The U.N. High Commissioner for Refugees has reported that at the end of 2007, there were still about 4,600 people considered refugees or displaced persons in Armenia.¹⁷ Armenia has granted citizenship and acted to permanently house most of the ethnic Armenians who fled Azerbaijan. The Azerbaijani government reported in April 2008 that there were 572,500 internally displaced persons in the country.¹⁸ The non-governmental International Crisis Group estimates that about 13-14% of Azerbaijan's territory, including NK, is controlled by NK Armenian forces (*The World Factbook* estimates about 16%).¹⁹ The OSCE's "Minsk Group" of concerned member-states began talks in 1992. A U.S. presidential envoy was appointed to these talks. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). The United States, France, and Russia co-chair meetings of the Minsk Group.

The Minsk Group reportedly has presented four proposals as a framework for talks, but a peace settlement has proved elusive. Since 2005, officials in both countries have reported negotiations on a fourth "hybrid" peace plan calling for initial agreement on "core principles." The Minsk Group co-chairs issued a statement and made other remarks in April-July 2006 that revealed some of their proposals for a settlement. These included the phased "redeployment of Armenian troops from Azerbaijani territories around NK, with special modalities for Kelbajar and Lachin districts (including a corridor between Armenia and NK); demilitarization of those territories; and a referendum or population vote (at a date and in a manner to be decided ...) to determine the final legal status of NK." International peacekeepers also would be deployed in the conflict area.²⁰

In November 2007, then-Undersecretary of State Nicholas Burns, Russian Foreign Minister Sergey Lavrov, and French Foreign Minister Bernard Kouchner presented the Foreign Ministers of Armenia and Azerbaijan with a draft text—*Basic Principles for the Peaceful Settlement of the Nagorno-Karabakh Conflict*—for transmission to their presidents. These officials urged the two sides to accept the *Basic Principles* (also termed the Madrid proposals, after the location where

¹⁷ U.N. High Commissioner for Refugees. *2007 Global Trends: Refugees, Asylum-seekers, Returnees, Internally Displaced and Stateless Persons*, June 2008. The NGO Amnesty International has raised concerns that refugees and displaced persons in Azerbaijan face prejudice and segregation. They are more likely to be unemployed and in poverty. *Azerbaijan: Displaced then Discriminated Against—the Plight of the Internally Displaced Population*, June 28, 2007.

¹⁸ Norwegian Refugee Council. Internal Displacement Monitoring Center. *Country Page: Azerbaijan*, at <http://www.internal-displacement.org/idmc/website/countries.nsf>.

¹⁹ International Crisis Group. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005; CIA World Factbook. *Azerbaijan*, online at <https://www.cia.gov/cia/publications/factbook/geos/aj.html>.

²⁰ OSCE. Statement by the Minsk Group Co-Chairs, July 3, 2006.

the draft text was presented) that had resulted from three years of talks and to begin “a new phase of talks” on a comprehensive peace settlement.²¹

In March 2008, the U.N. General Assembly approved a resolution that called for Armenia to “immediately and unconditionally” withdraw from “occupied” Azerbaijani territory. The resolution—introduced by Azerbaijan—was approved with a vote of 39 for and 7 against, with 100 abstentions. The United States voted against the resolution in part because, according to Deputy Assistant Secretary of State Matthew Bryza, it violated the provisions of the *Basic Principles* and thus harmed the peace process.

In the wake of the Russia-Georgia conflict in early August 2008 (see below), Armenian President Sarkisyan asserted that “the tragic events in [Georgia’s breakaway South Ossetia region] confirm that every attempt in the South Caucasus to look for a military answer in the struggle for the right to self-determination has far-reaching military and geopolitical consequences.”²²

Turkish Prime Minister Recep Tayyip Erdogan visited Russia, Georgia, and Azerbaijan in mid- to late August 2008 to propose the formation of a “Caucasus Stability and Cooperation” group to discuss regional peace, economic cooperation, and energy security, and which would include Turkey, Russia, Georgia, Azerbaijan, and Armenia, but would exclude the United States and the EU. Turkish President Abdullah Gul visited Armenia and Azerbaijan in early September to further discuss forming the group and to mediate the NK conflict. Armenian President Sarkisyan welcomed Turkey’s efforts as an attempt to create a favorable atmosphere in the region, but on September 11 called for continuing the Minsk Group talks.

On November 2, 2008, Russian President Medvedev hosted talks in Moscow between Armenian President Serzh Sarkisyan and Azerbaijani President Ilkham Aliyev on a settlement of the NK conflict. Little progress in reaching a settlement was reported, but a joint declaration signed by Aliyev and Sarkisyan (also termed the Meindorf declaration after the castle where talks were held) upheld a continued mediating role for the Minsk Group.

Presidents Aliyev and Sargisyan met to discuss NK peace settlement issues on the sidelines of the May 2009 EU summit that launched the EU Eastern Partnership program of enhanced trade and other ties with the South Caucasus and other former Soviet republics. Although the Minsk Group co-chairs reported some progress in the talks, Nevruz Mehmedov, the head of foreign affairs in the presidential administration, reportedly stated that the co-chairs were “misinforming the international public and the president and secretary of state of the United States by speaking about progress in the negotiation process.”²³ However, there was some subsequent interaction between civil society representatives of Armenia and Azerbaijan who met in NK in early July 2009. The two presidents are scheduled to meet in Moscow on July 17, 2009.

Civil and Ethnic Conflict in Georgia

Several of Georgia’s ethnic minorities stepped up their dissidence, including separatism, in the late 1980s and early 1990s, resulting in the loss of central government control over the regions of

²¹ U.S. Department of State. Office of the Spokesman. Media Note: Support for Basic Principles for Peaceful Settlement of the Nagorno-Karabakh Conflict, November 29, 2007.

²² Open Source Center. *Europe: Daily Report*, August 27, 2008, Doc. No. EUP-085016.

²³ *Interfax*, May 12, 2009.

South Ossetia and Abkhazia. Some observers argued that Russia's increasing controls over South Ossetia and Abkhazia over the years transformed the separatist conflicts into essentially Russia-Georgia disputes. Most residents of Abkhazia and South Ossetia were granted Russian citizenship and most appeared to want their regions to become independent or parts of Russia.²⁴

U.S. diplomacy long appeared to urge Georgia to work within existing peace settlement frameworks for Abkhazia and South Ossetia—which allowed for Russian “peacekeeping”—while criticizing some Russian actions in the regions. This stance appeared to change during 2008, when the United States and other governments increasingly came to support Georgia's calls for the creation of alternative peace settlement mechanisms, particularly since talks under existing formats had broken down.

This U.S. policy shift was spurred by increasing Russian actions that appeared to threaten Georgia's territorial integrity. Among these, the Russian government in March 2008 formally withdrew from CIS economic sanctions on Abkhazia, permitting open Russian trade and investment. Of greater concern, President Putin issued a directive in April 2008 to step up government-to-government ties with Abkhazia and South Ossetia. He also ordered stepped up consular services for the many Russian citizens in the two regions. He proclaimed that many documents issued by the separatist governments and businesses which had been established in the regions would be recognized as legitimate by the Russian government. A meeting of the U.N. Security Council (UNSC) on April 23, 2008, discussed these Russian moves. Although the Security Council issued no public decision, the United States, Great Britain, France, and Germany stated that same day that they “are highly concerned about the latest Russian initiative to establish official ties with ... Abkhazia and South Ossetia without the consent of the Government of Georgia. We call on the Russian Federation to revoke or not to implement its decision.”²⁵ (For other Russian actions during 2008 specific to a breakaway region, see below.)

Abkhazia

In July 1992, Abkhazia's legislature declared the region's effective independence, prompting an attack by Georgian national guardsmen. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a Eurasian state, termed UNOMIG, to help the parties reach a settlement. Russian and North Caucasian “volunteers” (who reportedly made up the bulk of Abkhaz separatist forces) routed Georgian forces in 1993. Georgia and Abkhazia agreed in April-May 1994 on a framework for a political settlement and the return of refugees. Russian troops (acting as CIS “peacekeepers”) were deployed in a zone between Abkhazia and the rest of Georgia. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians.

The U.S. Deputy Assistant Secretary of State worked with the Special Representative of the U.N. Secretary General and other “Friends of the Secretary General” (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a settlement. A “New Friends” group was formed in 2005 (members included Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Moldova, Poland, Romania, and Sweden) to advocate increased EU and NATO attention to a settlement. Sticking

²⁴ Vladimir Socor, *Eurasia Insight*, November 20, 2006. According to *Rossiyskoye Voennoye Obozreniye* (*Russian Military Review*), published by the Defense Ministry, 80% of residents of Abkhazia are citizens of Russia, and most voted in the December 2007 Russian legislative election. CEDR, April 21, 2008, Doc. No. CEP-358004.

²⁵ “Germany, Great Britain, France, U.S.A. and Germany Passed Communiqué,” *Black Sea Press*, April 24, 2008.

points in talks included Georgia's demand that displaced persons be allowed to return to Abkhazia, after which an agreement on autonomy for Abkhazia would be negotiated. The Abkhazians insisted on recognition of their independence as a precondition to large-scale repatriation.

In July 2006, a warlord in the Kodori Gorge area of northern Abkhazia, where many ethnic Svans reside, foreswore his nominal allegiance to the Georgian government. The Georgian government quickly sent forces to the area and defeated the warlord's militia. President Saakashvili asserted that the action marked progress in Georgia's efforts to re-establish its authority throughout Abkhazia, and he directed that the Abkhaz "government-in-exile" make the Gorge its home. Georgia claimed that only police were deployed in the Gorge, but Abkhazia asserted that military troops were present, in violation of the cease-fire agreement. Regular Georgia-Abkhazia peace talks were suspended in October 2006. Abkhazia called for Georgia to remove the government representatives and alleged military forces.

In March and April 2008, President Saakashvili proposed new peace initiatives that included international guarantees of autonomy for Abkhazia, quotas for Abkhaz representation in Georgian executive and legislative bodies, the establishment of a special economic zone in the Gali region, and more active involvement by the international community and Russia in a peace settlement. The initiatives were rejected by the *de facto* Abkhaz authorities.

In March and April 2008, unmanned aerial vehicles (UAVs) from Georgia were shot down over Abkhazia. After an investigation, UNOMIG concluded in late May 2008 that at least one of the UAVs had been shot down by a fighter jet flying into Abkhazia from Russian airspace. UNOMIG stated that Georgia should not fly the UAVs over Abkhazia, but also termed the shootdown by the Russian air force "fundamentally inconsistent" with the Abkhaz-Georgia ceasefire agreement. At a closed meeting of the UNSC on May 30, 2008, Georgia stated that it would end the flights of the UAVs.

The United States and others in the international community also raised concerns when the Russian foreign and defense ministries announced on April 29, 2008, that the number of "peacekeepers" in Abkhazia would be boosted up to the maximum permitted under ceasefire accords. There also would be added military equipment and checkpoints. The ministries claimed that the increases were necessary to counter a buildup of Georgian "military forces" and police in the Kodori Gorge, which they alleged were preparing to attack the *de facto* Abkhaz government. It was also troubling that 400 Russian paratroopers were deployed to Abkhazia that Russian officials reportedly stated would be fully armed in order to repulse possible Georgian attacks on Abkhazia.²⁶ In late May 2008, Russia announced that about 400 railway construction troops were being sent to Abkhazia for "humanitarian" work. The U.S. State Department responded that the "announcement is particularly difficult to understand," in light of Georgia's peace proposals, and objected that such troops were not part of Russia's "peacekeeping" force. These troops—whose role is to facilitate military positioning—reportedly left Abkhazia at the end of July 2008 after repairing tracks and bridges. According to Deputy Assistant Secretary Bryza, the railway was used in August by Russia when its troops moved into Georgia.²⁷

²⁶ ITAR-TASS, May 6, 2008.

²⁷ Pavel Felgenhauer, Eurasia Daily Monitor, June 12, 2008; U.S. Department of State. Foreign Press Center. Briefing: The Situation in the Republic of Georgia and its Implications for the Caucasus, August 19, 2008.

South Ossetia

In 1989, the region lobbied for joining its territory with North Ossetia in Russia or for independence. Repressive efforts by former Georgian President Gamsakhurdia triggered conflict in 1990, reportedly contributing to an estimated 2,000-4,000 deaths and the displacement of tens of thousands of people. In June 1992, Russia brokered a cease-fire, and Russian, Georgian, and Ossetian “peacekeeping” units set up base camps in a security zone around Tskhinvali, South Ossetia. Reportedly, the units totaled around 1,100 troops, including about 530 Russians, a 300-member North Ossetian brigade (which actually was composed of South Ossetians and headed by a North Ossetian), and about 300 Georgians. OSCE monitors did most of the patrolling. According to one estimate, some 45,000 ethnic Ossetians and 17,500 ethnic Georgians resided in a region that, according to the 1989 Soviet census, at that time contained over 98,000 residents.²⁸

In 2004, President Saakashvili increased pressure on South Ossetia by tightening border controls, breaking up a large-scale smuggling operation in the region that allegedly involved Russian organized crime and corrupt Georgian officials. He also reportedly sent several hundred police, military, and intelligence personnel into the region. Georgia maintained that it was only bolstering its peacekeeping contingent up to the limit of 500 troops, as permitted by the cease-fire agreement. Georgian guerrilla forces also reportedly entered the region. Allegedly, Russian officials likewise assisted several hundred paramilitary elements from Abkhazia, Transnistria, and Russia to enter. Following inconclusive clashes, both sides by late 2004 ostensibly had pulled back most undeclared forces.

In July 2005, President Saakashvili announced a new peace plan for South Ossetia that offered substantial autonomy and a three-stage settlement, consisting of demilitarization, economic rehabilitation, and a political settlement. South Ossetian “president” Eduard Kokoiti rejected the plan, asserting in October 2005 that “we [South Ossetians] are citizens of Russia.”²⁹ In November 2006, a popular referendum was held in South Ossetia to reaffirm its “independence” from Georgia. In March 2007, President Saakashvili proposed another peace plan for South Ossetia that involved creating “transitional” administrative districts throughout the region, and in July 2007, he decreed the establishment of a commission to work out South Ossetia’s “status” as a part of Georgia. After October 2007, no peace talks were held before the outbreak of conflict between Russia and Georgia in August 2008.

The August 2008 Russia-Georgia Conflict

Simmering long-time tensions erupted on the evening of August 7, 2008, when South Ossetia accused Georgia of launching a “massive” artillery barrage against its capital, Tskhinvali, while Georgia reported intense bombing of some Georgian villages in the conflict zone by South Ossetian forces. Georgia claims that South Ossetian forces did not respond to a ceasefire appeal

²⁸ *Georgia: a Toponymic Note Concerning South Ossetia*, The Permanent Committee on Geographic Names, January 2007.

²⁹ *CEDR*, October 7, 2005, Doc. No. CEP-15001. *CEDR*, December 12, 2005, Doc. No. CEP-27204. South Ossetians who were citizens of Russia voted in the 2004 Russian presidential election, and a poster in South Ossetia afterward proclaimed that “Putin is our president.” Many South Ossetians voted in the 2007 Russian Duma election and the 2008 Russian presidential election. *CEDR*, December 3, 2007, Doc. No. CEP-950289; February 28, 2008, Doc. No. CEP-4015.

but intensified their shelling, “forcing” Georgia to send in troops that reportedly soon controlled Tskhinvali and other areas.³⁰

On August 8, Russia launched large-scale air attacks across Georgia and dispatched seasoned troops to South Ossetia that engaged Georgian forces in Tskhinvali later in the day. Reportedly, Russian troops had retaken Tskhinvali, occupied the bulk of South Ossetia, reached its border with the rest of Georgia, and were shelling areas across the border by the morning of August 10. Russian warplanes bombed the Georgian town of Gori and the outskirts of the capital, Tbilisi, as well as other sites. Russian ships landed troops in Georgia’s breakaway Abkhazia region and took up positions off Georgia’s Black Sea coast.

On August 12, Medvedev declared that “the aim of Russia’s operation for coercing the Georgian side to peace had been achieved and it had been decided to conclude the operation.... The aggressor has been punished and suffered very heavy losses.”³¹ Medvedev endorsed some elements of a European Union (EU) peace plan presented by visiting French President Nicolas Sarkozy. On August 15, the Georgian government accepted the French-brokered 6-point ceasefire that left Russian forces in control of South Ossetia, Abkhazia, and “security zones” in undisputed Georgian territory.³² The six points include commitments not to use force, to halt hostilities, to provide full access for humanitarian aid, to withdraw Georgian forces to the places they were usually stationed prior to the conflict, to withdraw Russian forces to positions prior to the outbreak of hostilities (although they are permitted to implement security measures in the zone of the conflict until international monitors are in place), and to open international discussions on ensuring security and stability in Abkhazia and South Ossetia.

Russia undertook a pullback of military forces on August 22. However, substantial forces remained in areas outside of South Ossetia and Abkhazia, resulting in condemnation by the United States, NATO, and the EU that Russia was violating the ceasefire accord. Further condemnation by the international community occurred in the wake of President Medvedev’s August 26 decree officially recognizing the independence of South Ossetia and Abkhazia. Nicaragua is the only country that has followed suit in extending diplomatic relations to Abkhazia and South Ossetia.

On September 8, 2008, visiting French President Nicolas Sarkozy and Russian President Dmitriy Medvedev signed a follow-on ceasefire accord that fleshed out the provisions of the 6-point peace plan. Among its provisions, it stipulated that Russian forces would withdraw from areas adjacent to the borders of Abkhazia and South Ossetia by October 11; that Georgian forces would return to their barracks by October 1; that international observers already in place from the U.N. and OSCE would remain; and that the number of international observers would be increased by October 1, to include at least 200 observers from the EU, and perhaps more later. The EU called for Russia to permit these observers to patrol in Abkhazia and South Ossetia. Russia’s position has been that these observers cannot patrol in the regions without the approval of the regions, and the regional leaders have refused to permit such patrols. Although Sarkozy strongly implied that

³⁰ See also CRS Report RL34618, *Russia-Georgia Conflict in August 2008: Context and Implications for U.S. Interests*, by Jim Nichol.

³¹ *ITAR-TASS*, August 12, 2008. On September 11, Prime Minister Putin stated that Georgia’s aggression was answered by “a well-deserved mighty punch” by Russia. *ITAR-TASS*, September 11, 2008.

³² See CRS Report RL34618, *Russia-Georgia Conflict in August 2008: Context and Implications for U.S. Interests*, by Jim Nichol, August 29, 2008.

the international conference would examine the legal status of Georgia's breakaway Abkhazia and South Ossetia, Medvedev pointed out that the regions had been recognized as independent by Russia on August 26, 2008, and stated that disputing this recognition was a "fantasy."³³

The EU deployed over 200 monitors by October 1, and Russia announced on October 9 that its troops had withdrawn from buffer zones. Georgia has maintained that Russian troops have not pulled out of Akhalkalaki, a district that Russia asserts is within South Ossetia's Soviet-era borders, and the Kodori Gorge. EU and OSCE monitors were blocked from entering the regions. In December 2008, Russia objected to continuing a mandate for OSCE observers in Georgia—including some observers authorized before the August 2008 conflict and some who were added after the August 2008 conflict—and they pulled out on June 30, 2009.³⁴ Similarly, on June 15, 2009, Russia vetoed a U.N. Security Council resolution that extended the UNOMIG mandate, and they began to pull out of Abkhazia.

An international conference in Geneva to discuss security, repatriation, and status issues was disrupted at its inaugural session on October 15, 2008, when Russian, Abkhazian, and South Ossetian emissaries boycotted or walked out of various meetings during the day. Sessions in November and December 2008 were more successful in involving the emissaries in discussions. At the February 17-18, 2009, session, the sides agreed to set up an "incident prevention and response mechanism" along the South Ossetian border with the rest of Georgia in order to defuse tensions before they escalate. Emissaries from the EU, OSCE, and U.N. hold weekly meetings, investigate violent incidents, and ensure the delivery of humanitarian assistance. Russia insists that Georgia sign a non-use of force agreement and that the international community impose an arms embargo on Georgia.

The May 19-20, 2009, session in Geneva almost broke up, with Russia delaying proceedings until a report was issued by the U.N. Secretary General on Abkhazia. The report, issued after the Russia walkout, was deemed suitable and proceedings resumed on May 20. At issue was a Russian demand that the acronym UNOMIG not appear in the report. Although dropping the acronym (which refers to the U.N. observer mission as serving in Abkhazia, a part of Georgia), the U.N. Secretary General nonetheless stressed that "the ceasefire regime ... has continued to erode. Heavy military equipment and military personnel [from Russia] have remained in the Mission's area of responsibility."³⁵ At the session in Geneva in July 2009, the sides reportedly discussed setting up an incident prevention office along Abkhazia's border with the rest of Georgia.

Many observers have argued that Russia aimed both to consolidate control over South Ossetia and Abkhazia and to depose Georgian President Mikheil Saakashvili when it launched the August 2008 military incursions. Russia hoped to achieve this latter goal either directly by occupying Georgia's capital of Tbilisi and killing or arresting Saakashvili, or indirectly by triggering his

³³ Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), September 28, 2008, Doc. No. CEP-950425; CEP-950440.

³⁴ Before the August 2008 conflict, there were 142 OSCE staff in Georgia, of whom 106 were national staff, 7 contracted international staff, and 29 seconded international staff. The OSCE reported "some 200" staff members in December 2008. OSCE. *Press Information: Head of Mission*, February 1, 2008; *Press release: OSCE Chairman Regrets Disagreement on OSCE Future in Georgia*, December 22, 2008.

³⁵ U.N. Security Council. *Report of the Secretary-General Pursuant to Security Council Resolutions 1808 (2008), 1839 (2008) and 1866 (2009) S/2009/254*, May 18, 2009. See also Georgian Ministry of Foreign Affairs. *Information for the Press on the Issues Discussed During the Fifth Round of the Geneva Discussions*, May 19, 2009.

overthrow, according to these observers. They state that Saakashvili's survival as the popularly-elected president is a major accomplishment of the diplomacy led by the EU that ended Russia's offensive. They also suggest that the current political stability may indicate that Georgia has made at least some democratization progress.³⁶ Others warn that democratization is halting and could face setbacks (see also below, "Democratization Problems and Progress").³⁷

Economic Conditions, Blockades, and Stoppages

The economies of all three South Caucasus states greatly declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remain fragile. Investment in oil and gas resources has fueled economic growth in Azerbaijan in recent years at the expense of other sectors of the economy. Widespread poverty and regional conflict have contributed to high emigration from all three states, and remittances from these émigrés have provided major support for the remaining populations.³⁸

The global economic downturn that began in 2008 has hampered Armenia's economic growth and added to Georgia's economic stresses in the wake of the August 2008 conflict. Azerbaijan claims, however, that the high oil prices for much of 2008 contributed to a growth rate of over 9% for the year, and that growth remains positive in 2009. The influx of international assistance to Georgia has ameliorated to some degree the impact of the conflict and the world economic crisis.

Transport and communications obstructions and stoppages have severely affected economic development in the South Caucasus and stymied the region's emergence as an East-West and North-South corridor. Since 1989, Azerbaijan has obstructed railways and pipelines traversing its territory to Armenia.³⁹ According to the U.S. Embassy in Baku, Azerbaijan's Nakhichevan exclave "is blockaded by neighboring Armenia." The CIS imposed an economic embargo on Abkhazia from 1996 until early 2008. Since 2006, Russia has severely restricted agricultural trade and land, air, and sea links with Georgia. Russia hinders Azerbaijan's use of the Volga-Don Canal

³⁶ U.S. House of Representatives. Committee on Foreign Affairs. Hearing on U.S.-Russia Relations in the Aftermath of the Georgia Crisis. *Testimony of Daniel Fried, Assistant Secretary of State for European and Eurasian Affairs*, September 9, 2008. Saakashvili also highlighted this Russian aim during his testimony to the Georgian legislative commission investigating the causes of the conflict. See "Saakashvili Testifies Before War Commission, Analysts Comment," *The Messenger* (Tbilisi), December 1, 2008. Georgia's Ambassador to the United States, Davit Sikharulidze, argued that Russia's "aim was to overthrow the [Georgian] government and it would have come true but for the U.S. interference." *CEDR*, December 1, 2008, Doc. No. CEP-950233. Russia officially has denied such an aim.

³⁷ International Crisis Group. *Georgia: The Risks of Winter*, November 26, 2008.

³⁸ A. V. Korobkov, "Migration Trends in Central Eurasia," *Communist and Post-Communist Studies*, No. 2, 2007, pp. 169-89.

³⁹ Armenia long opposed the construction or revamping of a section of railway from Kars, Turkey, to Tbilisi (and thence to Azerbaijan) that would bypass Armenia, arguing that an existing section of railway from Kars that transits Armenia into Georgia could be returned to service "in a week." Azerbaijan and Turkey oppose a transit route through Armenia, despite Armenia's offers not to use the railway for its own goods or to impose transit tariffs. The Export-Import Bank Re-authorization Act of 2006 (P.L. 109-438) prohibits the Bank from guaranteeing, insuring, or extending credit in support of any railway construction that does not traverse or connect with Armenia and does traverse or connect Baku, Tbilisi, and Kars. Work on the railway began in late 2007 and is expected to be completed in 2010. In March 2008, Armenian President-elect Serzh Sarkisyan reportedly stated that Armenia might be able to use the railway, and argued that the railway is designed more as a means of bypassing "much larger countries" (presumably Russia) than Armenia. *CEDR*, March 12, 2008, Doc. No. CEP-950482.

to reach world shipping channels. Russia has at times cut off gas supplies to Georgia. During the August 2008 Russia-Georgia conflict, Russia's effective blockade of Georgia's Black Sea ports disrupted trade shipments to and from Armenia. In the wake of the conflict, gas transit from Russia to South Ossetia via other Georgian territory was disrupted, with each side blaming the other, until service was restored in late January 2009. Russia has been building a 110-mile gas pipeline from North Ossetia to South Ossetia to avoid transiting Georgia. Trans-border road traffic between Georgia and the regions of South Ossetia and Abkhazia is severely restricted. Armenia criticizes Georgia's refusal to reopen a section of railway transiting the country to Abkhazia and Russia.

Turkey closed its land borders with Armenia in 1993. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports. Turkey's closure of land borders in effect barred direct U.S. shipments of aid through its territory to Armenia. Foreign Operations Appropriations for FY1996 (P.L. 104-107) and Omnibus Consolidated Appropriations for FY1997 (P.L. 104-208)⁴⁰ have mandated U.S. aid cutoffs (with a presidential waiver) to any country which restricts the transport or delivery of U.S. humanitarian aid to a third country. These provisions were designed to convince Turkey to allow the transit of U.S. aid to Armenia.

Democratization Problems and Progress

Armenia

A legislative election was held on May 12, 2007, and five parties cleared a 5% vote hurdle to win 90 seats that were allocated through party list voting. One other party won 1 of the 41 seats subject to constituency voting. The party that had won the largest number of seats in the 2003 election—the Republican Party of Armenia—won a near majority (64 of 131 seats) in 2007. Two opposition parties won 16 seats. According to the final report of observers from the OSCE, COE, and the EU, the legislative elections “demonstrated improvement and were conducted largely in accordance with OSCE commitments....” However, the observers raised some concerns over pro-government party domination of electoral commissions, the low number of candidates in constituency races, and inaccurate campaign finance disclosures. They reported some counting irregularities at the precinct level, and assessed counting “as bad or very bad” at one-third of territorial electoral commissions. The report raised concerns that these vote-counting problems harmed public confidence in the results.⁴¹

The two parties that won the most votes in the May 2007 election—the Republican Party of Armenia and the Prosperous Armenia Party—announced that they would form a coalition to cooperate on legislative tasks and the formation of the government. They also agreed to jointly back one candidate for the upcoming 2008 presidential election. Incumbent President Kocharyan was at the end of his constitutionally limited second term in office. The two parties signed a side agreement with another party that won many votes—the Armenian Revolutionary Federation—on

⁴⁰ P.L. 104-208, Sec. 559, amends the Foreign Assistance Authorization Act of 1961.

⁴¹ OSCE. Office of Democratic Institutions and Human Rights (ODIHR). *Parliamentary Elections, Republic of Armenia, 12 May 2007: Final Report*, September 10, 2007. PACE. Ad Hoc Committee of the Bureau of the Assembly. *Report: Observation of the Parliamentary Elections in Armenia*, Doc. 11312, June 20, 2007. See also CRS Report RS22675, *Armenia's Legislative Election: Outcome and Implications for U.S. Interests*, by Jim Nichol.

its participation in the coalition, although it reserved the right to run its own candidate in the presidential race. President Robert Kocharyan appointed defense minister Serzh Sarkisyan as prime minister in June 2007.

Armenia's presidential election was held on February 19, 2008. Prime Minister Sarkisyan was nominated by the Republican Party and endorsed by outgoing President Robert Kocharyan. He ran against eight other candidates. According to final results issued by the Central Electoral Commission on February 24, Sarkisyan was the winner with 52.82% of 1.67 million votes cast, followed by Levon Ter-Petrossyan with 21.5% and Arthur Baghdasaryan with 16.7%.

Election observers from the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe (COE), and the European Parliament (EP), issued a final report (with a more negative assessment than given in a preliminary report) that the election "mostly met OSCE commitments ... in the pre-election period and during voting hours," but that "serious challenges to some commitments did emerge, especially after election day. This displayed an insufficient regard for standards essential to democratic elections and devalued the overall election process. In particular, the vote count demonstrated deficiencies of accountability and transparency...."⁴²

Demonstrations by oppositionists claiming that the election was not free and fair were forcibly suppressed by military and police forces in the capital of Yerevan on March 1. Street battles and looting were reported later in the day. The government reported that ten people were killed, that dozens were injured, that many of the demonstrators were armed, and that they had received orders to overthrow the government. President Kocharyan declared emergency rule in Yerevan late on March 1, which provided for government control over media and a ban on public meetings and party activities. Authorities arrested or detained dozens of opposition politicians and others. The state of emergency was lifted on March 21, but a new law limited political rallies. Also on March 21, the Republican Party, Rule of Law Party, Prosperous Armenia Party, and the Armenian Revolutionary Federation signed an agreement to form a political coalition. In his April 9, 2008, inaugural address, Sarkisyan stated that "we will build a strong, proud, and democratic state of Armenia where all are equal under the law." He named Central Bank chairman Tigran Sarkisyan as the prime minister, and announced that a new coalition government would be composed of the four parties.⁴³

Azerbaijan

Changes to the election law, some in line with proposals from the Venice Commission, were approved by the legislature in June 2005, including those making it easier for people to become candidates for a November 6, 2005, legislative election. However, the deputies rejected some of the most significant proposals, including a more equitable representation of political interests on electoral commissions. After the election, the U.S. State Department issued a statement praising democratization progress, but urging the government to address some electoral irregularities.⁴⁴ Repeat elections were scheduled for May 2006 in ten constituencies where alleged irregularities took place. According to OSCE election monitors, the repeat race appeared to be an improvement

⁴² OSCE. International Election Observation Mission. Presidential Election, Republic of Armenia, 19 February 2008: Final Report of the OSCE/ODIHR Election Observation Mission, May 30, 2008.

⁴³ *ITAR-TASS*, April 9, 2008.

⁴⁴ U.S. Department of State. *Press Statement: Azerbaijan Parliamentary Elections*, November 7, 2005. See also CRS Report RS22340, *Azerbaijan's 2005 Legislative Election: Outcome and Implications for U.S. Interests*, by Jim Nichol.

over the November election, but irregularities needed to be addressed, including interference by local officials in campaigns. The ruling Yeni Azerbaijan Party won 62 seats, the independents 44, and Musavat 5. The remaining 14 seats were held by several small parties.⁴⁵

During the run-up to the 2005 legislative election, authorities arrested several prominent officials on charges of coup-plotting, although later they instead were convicted on lesser charges. One sensational trial involved Farhad Aliyev, former minister of economic development (no relation to Ilkham Aliyev), who was among those arrested in 2005. He was tried along with his brother, Rafiq (a businessman), and 17 others and was convicted in October 2007 to ten years in prison on charges of embezzlement. He claimed that he was prosecuted because of his advocacy of closer Azerbaijani ties with the United States and the EU, economic reforms, and anti-corruption efforts. Senator John McCain and Representatives Gary Ackerman and Alcee Hastings were among those in Congress concerned about due process in the case.⁴⁶

A presidential election was held on October 15, 2008. In early June 2008, the legislature approved changes to the electoral code. Some of the changes had been recommended by the Venice Commission, an advisory body of the Council of Europe. However, other recommendations of the Venice Commission were not considered, including those on eliminating the dominance of government representatives on election commissions.⁴⁷ The opposition Azadliq (Freedom) party bloc decided on July 20 that it would boycott the election on the grounds that the election laws were not fair, their parties faced harassment, and media were constrained.⁴⁸ This bloc includes the Popular Front Party (Reform), the Liberal Party, and others. In early September 2008, the Azadliq bloc joined with other parties to form an Opposition Cooperation Center (OCC) coalition, including the Musavat Party, the Civil Development Party, and the Public Forum for the Sake of Azerbaijan. Incumbent President Aliyev won a resounding victory, gaining nearly 89% of the vote against six other candidates. According to a report by election monitors from OSCE/ODIHR, the Parliamentary Assembly of the Council of Europe (PACE), and the European Parliament (EP), the voting process was peaceful, well organized, and efficient, but there was a “lack of robust competition and of vibrant political discourse facilitated by media.” The observers also raised concerns that there appeared to be “significant procedural shortcomings [in vote counting] in many cases, and manipulation in some instances.”⁴⁹

Proposed amendments to the constitution were overwhelmingly approved by citizens in a referendum held on March 18, 2009. According to a small delegation from PACE, the voting “was transparent, well organized, and held in a peaceful atmosphere.” They criticized the dearth of discussion in the media of the merits of the constitutional amendments and voiced regret that some changes to the amendments proposed by the Venice Commission were not made before they were voted on. Some opposition parties had in particular objected to an amendment lifting term

⁴⁵ OSCE/ODIHR Mission. Press Release: Partial Repeat Parliamentary Elections in Azerbaijan Underscore Continuing Need for Electoral Reform, May 15, 2006.

⁴⁶ *Eurasia Insight*, October 30, 2006; *Congressional Record*, March 29, 2007, pp. E708-709. See also PACE. Committee on the Honoring of Obligations and Commitments by Member States of the Council of Europe, *Honoring of Obligations and Commitments by Azerbaijan, Explanatory Memorandum*, Doc. 11226, March 30, 2007.

⁴⁷ European Commission for Democracy Through Law (Venice Commission). *Joint Interim Opinion on the Draft Amendments to the Electoral Code of the Republic of Azerbaijan*. 74th Plenary Session, March 14-15, 2008, Opinion no. 390/2006, CDL-AD(2008)003, March 18, 2008.

⁴⁸ Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), April 24, 2008, Doc. No. CEP-950216.

⁴⁹ OSCE/PACE/EP. Republic of Azerbaijan Presidential Election, 15 October 2008: Statement of Preliminary Findings and Conclusions, October 16, 2008.

limits on the presidency during a “state of war,” and had called for a boycott of the referendum. After the vote, they claimed that the government’s report of turnout and results was exaggerated.⁵⁰

Georgia

Increased political instability in Georgia in late 2007 raised questions in the United States, NATO, and elsewhere about whether the country could sustain what many observers hoped was a broad commitment to democratization by the Saakashvili administration. Oppositionist activities appeared to strengthen after the detention on corruption charges of former Defense Minister Irakli Okruashvili in late September 2007, in the wake of his sensational allegations that Saakashvili had once ordered him to kill a prominent businessman. Several opposition parties united in a “National Council” that launched demonstrations in Tbilisi to demand that legislative elections be held in spring 2008 (instead of in late 2008 as set by a constitutional change approved by the NM-dominated legislature), and that Saakashvili resign. On November 7, 2007, police and security forces forcibly dispersed demonstrators, reportedly resulting in several dozen injuries. Saakashvili declared a state of emergency for 15 days, giving him enhanced powers. He claimed that the demonstrations had been part of a coup attempt orchestrated by Russia, and ordered three Russian diplomats to leave the country.

U.S. and other international criticism of the crackdown may have played an important role in Saakashvili’s decision to step down as president on November 25, 2007, so that early presidential elections could be held on January 5, 2008, “because I, as this country’s leader, need an unequivocal mandate to cope with all foreign threats and all kinds of pressure on Georgia.”⁵¹ At the same time, a plebiscite was to be held on whether to have a spring or fall legislative election and on whether Georgia should join NATO. Saakashvili ran against five other candidates and reportedly won over 53% of the vote. The OSCE stated that the election broadly met its standards, but that troubling irregularities needed to be addressed. The plebiscite endorsed holding a spring 2008 legislative election and Georgia’s aim to join NATO (See also CRS Report RS22794, *Georgia’s January 2008 Presidential Election: Outcome and Implications*, by Jim Nichol).

A legislative election was held on May 21, 2008. Twelve parties and blocs were registered to compete for 75 seats to be allocated by party lists and 75 seats by single-member constituencies. The dominant NM pledged to reduce poverty and argued that its stewardship had benefitted the country. The main opposition bloc, the United Opposition Movement, called for President Saakashvili to resign from office. The Central Electoral Commission announced that NM won the largest share of the party list vote and also 71 of 75 constituency races, giving it a total of 119 out of 150 seats in the legislature. The United Opposition won a total of 17 seats, the opposition Christian Democrats six seats, the opposition Labor Party six seats, and the opposition Republican Party two seats. Some observers argued that the opposition had harmed its chances by failing to unite in one bloc and that the NM also benefitted from several popular businessmen who ran on its ticket in constituency races. International observers from the OSCE and other European organizations concluded that the Georgian government had made efforts to conduct free and fair elections, but that “a number of problems ... made this implementation uneven and

⁵⁰ CEDR, January 23, 2009, Doc. No. CEP-950024 and Doc. No. CEP-950276; February 23, 2009, Doc. No. CEP-950103; March 19, 2009, Doc. No. CEP-950277.

⁵¹ CEDR, November 8, 2007, Doc. No. CEP-950428.

incomplete.” Among the problems were a ban on self-nominated candidates, the use of government resources for campaign purposes, the lack of balance in media coverage, a “contradictory and ambiguous” electoral complaint and appeal process, and troubling irregularities in vote-counting.⁵² Most United Opposition and Labor Party deputies refused their seats. Two constituency seats were subsequently filled by Christian Democrats in by-elections, but 13 seats remain unfilled.

In his address at the U.N. General Assembly on September 23, 2008, President Saakashvili announced new democratization initiatives as a means to strengthen Georgia’s sovereignty and independence and thereby prevent Russia from subverting Georgia’s statehood. He stated that the judicial and legislative branches of government would be strengthened, that state funding would be increased to opposition parties and they would have greater access to media, that trials by jury and lifetime judicial appointments would be implemented, and that private property rights would be expanded. In November 2008, Saakashvili stated that reforms in the appointment of judges were being worked out, that judges were beginning to be appointed for life, and that trial by jury soon would be introduced.⁵³

In late March 2009, the government announced the arrests of nearly a dozen individuals on charges of plotting to launch a coup at an upcoming demonstration. Several of the individuals were linked to Burjanadze’s party. At this major demonstration on April 9, 2009, several opposition parties called for Saakashvili to resign and for new presidential and legislative elections to be held. Prominent oppositionists leading the protest included former legislative speaker Nino Burjanadze, head of the Democratic Movement-United Georgia Party, and former U.N. ambassador Irakly Alasania, head of the Alliance for Georgia bloc. The April 9 demonstration was the beginning of continuous rallies that included the blocking of transport routes. Another large demonstration was held on May 26, after which it appeared that the daily rallies involved dwindling numbers of protesters.

After lengthy attempts, President Saakashvili met with a few opposition leaders in April 2009 and again in May to discuss setting up a constitutional commission to work out changes to the political system. At the May meeting, he proposed the establishment of a constitutional commission headed by an opposition-approved representative; electoral code and judicial reforms; the appointment of oppositionists to ministerial posts; and equal opposition representation on the board of public television. At the same time, he rejected opposition demands to resign and hold new presidential and legislative elections. The United States and the EU strongly urged such meetings between the government and the opposition.⁵⁴ In June 2009, President Saakashvili formed the constitutional commission and the former president of the Constitutional Court, Avtandil Demetrashvili, was appointed chairman. Demetrashvili and others have called for moving toward the creation of a bicameral, “European-style” parliamentary form of government.⁵⁵

⁵² OSCE. International Election Observation Mission. Georgia: Parliamentary Elections, 21 May 2008, Statement of Preliminary Findings and Conclusions, May 22, 2008.

⁵³ In late 2008, the International Crisis Group (ICG), a non-governmental organization, warned that government-opposition tensions could rise and that Georgia might lose international donor support for rebuilding unless Saakashvili stepped up his democratic reform efforts. ICG. *Georgia: The Risks of Winter*, November 26, 2008.

⁵⁴ Czech Presidency of the European Union. *Press Release: Joint US-EU Statement on Georgia*, May 26, 2009.

⁵⁵ EIU, Georgia Country Report, June 4, 2009. Open Source Center. *Central Eurasia: Daily Report*, May 11, 2009, Doc. No. CEP-950119; May 18, 2009, Doc. No. CEP-950073; June 4, 2009, Doc. No. CEP-950186; June 8, 2009, Doc. No. CEP-950139.

U.S. Aid Overview

The United States is the largest bilateral aid donor by far to Armenia and Georgia, and the two states are among the five Eurasian states that each have received more than \$1 billion in U.S. aid FY1992-FY2007 (the others are Russia, Ukraine, and Kazakhstan, which have received sizeable Comprehensive Threat Reduction funds). See **Table 1**. U.S. assistance to the region FY1992-FY2007 amounts to about 14% of all aid to Eurasia and has included FREEDOM Support Act (FSA) programs, food aid (U.S. Department of Agriculture), Peace Corps, and security assistance. Armenia and Georgia have regularly ranked among the top world states in terms of per capita U.S. aid, indicating the high level of concern within the Administration and Congress. In Foreign Operations Appropriations for FY1998 (P.L. 105-118), Congress created a new South Caucasian funding category to emphasize regional peace and development, and since then has upheld this funding category in yearly appropriations. Congress also has called for humanitarian aid to be provided to NK, which has amounted to about \$32 million from FY1998 through FY2008. In the Omnibus Appropriations Act for FY2009 (P.L. 111-8; signed into law on March 11, 2009), up to \$8 million is provided to address ongoing humanitarian needs in NK. Besides bilateral aid, the United States contributes to multilateral organizations such as the International Monetary Fund and the World Bank that aid the region.

In January 2004, Congress authorized a major new global assistance program, the Millennium Challenge Account (Section D of P.L. 108-199). A newly established Millennium Challenge Corporation (MCC) deemed that Georgia was eligible as a democratizing country for assistance, even though it did not meet criteria on anti-corruption efforts. In September 2005, MCC signed a five-year, \$295.3 million agreement (termed a “compact”) with Georgia to improve a road from Javakheti to Samtskhe, repair a gas pipeline, create a small business investment fund, set up agricultural grants, and improve municipal and rural water supply, sanitation, irrigation, roads, and solid waste treatment. In the wake of the August 2008 Russia-Georgia conflict, the MCC announced plans for an extra \$100 million for road-building, water and sanitation facilities, and a natural gas storage facility. The MCC reported in April 2009 that it had so far disbursed \$95.2 million to Georgia.

In December 2005, the MCC approved plans to sign a five-year, \$235.65 million compact with Armenia—to bolster rural agriculture through road-building and irrigation and marketing projects—but raised concerns about the November 2005 constitutional referendum. Following assurances by then-Foreign Minister Oskanyan that Armenia would address democratization shortfalls, the MCC and Armenia signed the compact, and it went into force in September 2006.⁵⁶ After the political turmoil in Armenia in March 2008, the MCC indicated that as an expression of its “serious concern,” it would halt contracting for road-building. In response, the Armenian government stated that it would devote \$16.8 million of its own funds to carry out initial road-building. In December 2008, the MCC Board reiterated its concerns about democratization progress in Armenia and decided to retain the suspension of some road work, while moving ahead on other projects. In June 2009, the MCC Board announced that it was cancelling \$67.1 million in

⁵⁶ Millennium Challenge Corporation. *Ambassador Danilovich's letter to Armenian President Robert Kocharyan*, December 16, 2005; *Press Release: Millennium Challenge Corporation Board Approves Armenia Compact but Expresses Concern Regarding Irregularities in the November Referendum*, December 19, 2005; and *Ambassador Danilovich's letter to Armenian President Robert Kocharyan*, January 18, 2006, at <http://www.mca.gov>. See also *Armenian Foreign Ministry. Oskanyan Thanks MCC for Millennium Compact*, January 12, 2006, at <http://www.armeniaforeignministry.com>.

funding for the road building project because of Armenia's halting democratization, although other projects would continue.⁵⁷ The MCC reported that as of April 2009 it had disbursed \$30.9 million to Armenia.

U.S. Assistance After the Russia-Georgia Conflict

To address Georgia's urgent humanitarian needs in the wake of the August 2008 Russia-Georgia conflict, the U.S. Agency for International Development (USAID) and the Defense and State Departments provided Georgia with urgent humanitarian assistance. The Defense Department announced on September 8 that it had completed its naval and air delivery of these urgent humanitarian supplies to Georgia.

On September 3, 2008, then-Secretary of State Rice announced a multi-year \$1 billion aid plan for Georgia. The Administration envisaged that the proposed \$1 billion aid package would be in addition to existing aid and requests for Georgia, such as FREEDOM Support Act assistance. The added aid was planned for humanitarian needs, particularly for internally displaced persons, for the reconstruction of infrastructure and facilities that were damaged or destroyed during the Russian invasion, and for safeguarding Georgia's continued economic growth.⁵⁸

Besides the envisaged aid, the White House announced that other initiatives might possibly include broadening the U.S. Trade and Investment Framework Agreement with Georgia, negotiating an enhanced bilateral investment treaty, proposing legislation to expand preferential access to the U.S. market for Georgian exports, and facilitating Georgia's use of the Generalized System of Preferences.

Congress acted quickly to flesh out the Administration's aid proposals for Georgia. The Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (H.R. 2638/P.L. 110-329), signed into law on September 30, 2008, appropriated an additional \$365 million in aid for Georgia and the region (beyond that provided under continuing appropriations based on FY2008 funding) for humanitarian and economic relief, reconstruction, energy-related programs and democracy activities. Of that amount, \$315 million was actually budgeted for Georgia.

The State Department announced in early December 2008 that \$757 million of the pledged \$1 billion in new assistance had been provided or was in the process of being provided to Georgia, with the balance to be appropriated by the next Congress. Already, \$60 million had been provided in humanitarian assistance for food, water, bedding, and medicine, and \$250 million had been made available to the Georgian government for fiscal stabilization and urgent governmental expenses, including pensions for government retirees, healthcare, allowances for displaced persons, secondary education, and salaries for government employees. Among in-process funding, the MCC was providing \$100 million to Georgia to support existing programs, including road rehabilitation, water supply and waste water projects, gas pipeline repairs, and energy sector studies. The Defense Department was providing \$50 million for urgent reconstruction and

⁵⁷ Emil Danielyan, "Armenia to Finance Road Project Frozen by U.S.," *Armenia Liberty*, July 14, 2008; U.S. Embassy in Yerevan. *Background Information on the Status of the MCA-Armenia Program*, December 16, 2008; MCC. *Press Release: MCC Board of Directors Meets to Address U.S. Government Global Development Priorities*, June 10, 2009.

⁵⁸ U.S. Department of State. Secretary Condoleezza Rice. Remarks On U.S. Economic Support Package for Georgia, September 3, 2008; Briefing On U.S. Economic Support Package for Georgia, September 3, 2008.

stabilization assistance (see also below, Security Assistance), and OPIC was providing \$176 million for mortgages and commercial and residential property development. Another \$121 million was planned to be allocated for economic reconstruction, assistance to displaced persons, energy security-related programs, and strengthening Georgia's democratization.⁵⁹

The Omnibus Appropriations Act for FY2009 (P.L. 111-8; signed into law on March 11, 2009) provides \$144.4 million in assistance for Armenia, Azerbaijan, and Georgia. In addition, it calls for up to \$8 million for humanitarian needs in NK. The Supplemental Appropriations Act for FY2009 (P.L. 111-32; signed into law on June 24, 2009) provides an additional \$242 million in Freedom Support Act assistance to Georgia. See Table 1.

U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after September 11, 2001. Gen. Bantz Craddock, then-Commander of the U.S. European Command (EUCOM) testified in March 2009 that the "Caucasus is an important area for the United States and its partners. Caucasus nations actively support Operation Iraqi Freedom and ISAF by providing both with troops and over-flight access for critical supply lines from EUCOM to the CENTCOM area of responsibility. They provide alternative energy sources from the Caspian Sea basin and alternative routes of access to Central Asian energy reserves. It is an important region for European energy diversification."⁶⁰

EUCOM initiatives in the region have included the Sustainment and Stability Operations Program (SSOP) in Georgia, the South Caucasus Clearinghouse, and the Caspian Regional Maritime Security Cooperation program. The 16-month SSOP was launched in early 2005 as a follow-on to the Georgia Train and Equip Program (GTEP).⁶¹ SSOP was funded at \$60.5 million in FY2005. SSOP provided training for four battalions (2,000 troops), in part to support U.S.-led coalition operations. In July 2006, the United States announced that the SSOP would be extended another year and funded at \$30 million.⁶² Prior to the Russia-Georgia conflict, the U.S. was providing initial military training to Georgia's 4th Brigade for its eventual deployment to Iraq in Winter 2008. The Defense Department planned to budget approximately \$35 million for this training.⁶³

The Clearinghouse aims to facilitate cooperation by sharing data on security assistance among both donor and recipient countries. Gen. Craddock testified in March 2008 that the Caspian Regional Maritime Security Cooperation program aims to "coordinate and complement U.S. government security cooperation activities in Azerbaijan and Kazakhstan. U.S. Naval Forces

⁵⁹ U.S. Department of State. Office of the Spokesman. Taken Question At Tuesday, December 9 Daily Press Briefing: Georgia, \$1 Billion Assistance Commitment, December 9, 2008.

⁶⁰ U.S. House of Representatives. Committee on Armed Services. *Testimony by Gen. Bantz J. Craddock*, March 24, 2009. See also CRS Report RL30679, *Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests*, by Jim Nichol.

⁶¹ U.S. officials explained that the \$64 million GTEP carried out in 2002-2004 would help Georgian military, security, and border forces to combat Chechen, Arab, Afghani, Al Qaeda, and other terrorists who allegedly had infiltrated Georgia. Some of these terrorists allegedly had fled U.S.-led coalition operations in Afghanistan, so the GTEP was initially linked to OEF. Other reported U.S. aims include bolstering Georgia's ability to guard its energy pipelines and ensuring internal stability. The program formally ended in April 2004.

⁶² "U.S. Allocates \$30 mln for SSOP Army Training Program," *Civil Georgia*, July 17, 2006.

⁶³ Senate Armed Services Committee. Hearing on the Georgia-Russia Crisis: Implications and U.S. Response. *Testimony of Eric S. Edelman, Under Secretary of Defense for Policy*, September 9, 2008.

Europe continues to promote Maritime Safety and Security and Maritime Domain Awareness in the Caspian Sea through routine engagement with Azerbaijan. These efforts are targeted to create an organic ability within Azerbaijan to ‘observe, evaluate, and respond’ to events in their maritime domain.”⁶⁴ (This program appears to combine elements of the former Caspian Guard and Hydrocarbons programs.) The United States acknowledged in late 2005 that it had supplied two maritime surveillance radars to help detect and direct interdiction of illicit weapons of mass destruction and other trafficking in the Caspian Sea.⁶⁵

In the wake of the August 2008 Russia-Georgia conflict that severely damaged Georgia’s military capabilities, NATO’s then-Supreme Allied Commander for Europe, Gen. Craddock, visited Georgia on August 21 to survey the destruction of infrastructure and military assets. The Department of Defense later sent teams to evaluate Georgia’s economic, infrastructure, and defense needs. In October 2008, Congress authorized \$50 million for security assistance for Georgia under the National Defense Authorization Act for FY2009 (P.L. 110-417; the so-called “Section 1207” authority). In December 2008, the U.S. Embassy in Georgia announced that these funds were being obligated for rebuilding the police force (\$20 million) and meeting priority food, shelter, and livelihood needs of displaced persons in the Shida Kartli region (\$30 million).⁶⁶

In March 2009, Gen. James Cartwright, the Vice Chairman of the Joint Chiefs of Staff, visited Georgia to further assess its defense needs. He stated that “the United States remains committed to the U.S.-Georgia charter on strategic partnership and to provide training and other assistance to the Georgian military in support of their reform efforts and continued independence.” He pledged added training that would be “focused on the defense of Georgia, on its self and internal defense,” and equipment transfers that would be based on “what equipment needs to be upgraded and then what new types of equipment that are necessary for their homeland defense.”⁶⁷ The *Congressional Budget Justification for Foreign Operations for FY2010* calls for boosting FMF to \$16 million and IMET to \$2 million for Georgia (compared to \$11 million and \$1.15 million, respectively, in 2009).

All three regional states joined NATO’s Partnership for Peace (PFP) in 1994. The June 2004 NATO summit pledged enhanced attention to the South Caucasian and Central Asian PFP members. A Special Representative of the NATO Secretary General was appointed to encourage democratic civil-military relations, transparency in defense planning and budgeting, and enhanced force inter-operability with NATO. In 2004-2005, all three states agreed with NATO to participate in Individual Partnership Action Plans (IPAPs) for military and civil-military reforms. On September 21, 2006, NATO approved Georgia’s application for “Intensified Dialogue” with the alliance, ostensibly because of Georgia’s military reform progress, although NATO also emphasized that much more reform work needed to be done before Georgia might be considered for NATO membership.

⁶⁴ U.S. Senate. Committee on Armed Services. *Statement of General Bantz J. Craddock*, March 13, 2008.

⁶⁵ “Two Radar Stations Become Operational in Azerbaijan under the U.S.-Funded Caspian Guard Initiative,” *International Export Control Observer*, Center for Non-proliferation Studies, Monterey Institute of International Studies, November 2005.

⁶⁶ U.S. Embassy in Georgia. U.S. Government Assistance to Georgia, press release, December 19, 2008. See also CRS Report RS22871, *Department of Defense “Section 1207” Security and Stabilization Assistance: Background and Congressional Concerns*, by Nina M. Serafino.

⁶⁷ Air Force Master Sgt. Adam Stump, “U.S., Georgia to Continue Strategic Partnership,” *American Forces Press Service*, March 31, 2009; *CEDR*, March 30, 2009, Doc. No. CEP-950352; Giorgi Lomsadze, “Georgia: Pentagon to Start Military Training Program,” *Eurasia Insight*, March 30, 2009.

Although the United States reportedly urged that Georgia be considered for a Membership Action Plan (MAP; preparatory to membership), NATO's Riga Summit in November 2006 reaffirmed support for an intensified dialogue to assist Georgia in implementing reforms.⁶⁸ A MAP for Georgia was a matter of contention at the April 2008 NATO Summit. Although Georgia was not offered a MAP, the Alliance pledged that Georgia would eventually become a member of NATO, and stated that the issue of a MAP for Georgia would be revisited later in the year.⁶⁹

After the August 2008 Russia-Georgia conflict, several allies raised heightened concerns that Georgia was not ready to be granted a MAP because of the destruction of much of its military infrastructure by Russia, the uncertain status of the breakaway regions, and the uncertain quality of conflict decision-making by Georgia's political and military leadership. At a NATO foreign ministers' meeting in early December 2008, then-Secretary of State Rice appeared to acknowledge these allied concerns by embracing a proposal to defer granting a MAP. The allies instead agreed to step up work within the NATO-Georgia Council (established soon after the Russia-Georgia conflict) to facilitate Georgia's eventual NATO membership, and to prepare annual reports on Georgia's progress toward eventual membership.

The U.S. Congress approved the NATO Freedom Consolidation Act of 2007, signed into law in April 2007 (P.L. 110-17), to urge NATO to extend a MAP for Georgia and to designate Georgia as eligible to receive security assistance under the program established by the NATO Participation Act of 1994 (P.L. 103-447) (see also below, *Legislation*). Troops from Armenia, Azerbaijan, and Georgia have served as peacekeepers in NATO-led operations in Kosovo, and Azerbaijan supports NATO-led operations in Afghanistan. In mid-April 2008, Georgia withdrew its 150 peacekeepers from Kosovo.

Until waived, Section 907 had prohibited much U.S. security aid to Azerbaijan, including Foreign Military Financing (FMF), and International Military Education & Training (IMET). Under U.S. policy, similar aid had not been provided to Azerbaijan's fellow combatant Armenia. From 1993-2002, both had been on the Munitions List of countries ineligible for U.S. arms transfers. Since the waiver provision to Section 907 was enacted, some Members have maintained that the Armenian-Azerbaijani military balance is preserved by providing equal amounts (parity) in IMET and FMF assistance to each country. The Explanatory Statement for the Omnibus Appropriations Act for FY2009 (P.L. 111-8; signed into law on March 11, 2009) calls for equal amounts of FMF (\$3 million) for each country. The *Congressional Budget Justification for Foreign Operations for FY2010*, however, calls for \$3 million in FMF and \$450,000 for IMET for Armenia, and \$4 million and \$900,000, respectively, for Azerbaijan.

U.S. Trade and Investment

The former Bush Administration and others have maintained that U.S. support for privatization and the creation of free markets directly serve U.S. national interests by opening markets for U.S.

⁶⁸ NATO. North Atlantic Council. *Riga Summit Declaration*, November 29, 2006. President Bush stated that the United States supported Georgia's NATO membership. "Remarks By President Bush In Riga, Latvia," *PR Newswire*, November 28, 2006. Sen. Richard Lugar urged soon granting Georgia a MAP and suggested that NATO's energy security would be facilitated by eventually offering NATO membership to Azerbaijan and Kazakhstan. "Senator Lugar Delivers Remarks at the Riga Summit, Latvia," *Congressional Quarterly Transcripts*, November 27, 2006.

⁶⁹ See also CRS Report RL34701, *NATO Enlargement: Albania, Croatia, and Possible Future Candidates*, by Vincent Morelli et al..

goods and services and sources of energy and minerals. Among U.S. economic links with the region, bilateral trade agreements providing for normal trade relations for products have been signed and entered into force with all three states. Bilateral investment treaties providing national treatment guarantees have entered into force. U.S. investment is highest in Azerbaijan's energy sector, but rampant corruption in the three regional states otherwise has discouraged investors. With U.S. support, in June 2000 Georgia became the second Eurasian state (after Kyrgyzstan) to be admitted to the WTO. The application of Title IV of the Trade Act of 1974, including the Jackson-Vanik amendment, was terminated with respect to Georgia in December 2000, so its products receive permanent nondiscriminatory (normal trade relations or NTR) treatment. Armenia was admitted into WTO in December 2002. The application of Title IV was terminated with respect to Armenia in January 2005.

Energy Resources and U.S. Policy

The U.S. Energy Department reports estimates of 7-13 billion barrels of proven oil reserves, and estimates of 30-48 trillion cubic feet of proven natural gas reserves in Azerbaijan.⁷⁰ Critics argue that oil and gas from Azerbaijan will amount to a tiny percent of world exports of oil and gas, but the former Bush Administration argued that these exports would nonetheless boost energy security somewhat for European customers currently relying on Russia.

During the Clinton Administration, the United States in 1995 encouraged the building of one small oil pipeline (with a capacity of about 155,000 barrels per day) from Azerbaijan to the Georgian Black Sea port of Supsa as part of a strategy of ensuring that Russia did not monopolize east-west export pipelines. As part of this strategy, the United States also stressed building the Baku-Tbilisi-Ceyhan (BTC) pipeline (with a capacity of about 1 million barrels per day) as part of a "Eurasian Transport Corridor." A report issued early in the Bush Administration called for breaking Russia's monopoly over oil and gas transport routes by encouraging the building of pipelines that did not traverse Russia; promoting Western energy security through diversified suppliers; assisting ally Turkey; and opposing the building of pipelines transiting Iran.⁷¹ After September 11, 2001, the former Bush Administration emphasized U.S. vulnerability to possible energy supply disruptions and encouraged Caspian energy development.

Building the Baku-Tbilisi-Ceyhan and South Caucasus Pipelines

In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on construction of the 1,040-mile long BTC oil pipeline. In August 2002, the BTC Company (which includes U.S. firms Conoco-Phillips, Amerada Hess, and Chevron) was formed to construct, own, and operate the oil pipeline. Azerbaijani media reported at the end of May 2006 that the first tanker had on-loaded oil at Ceyhan. SOCAR reported in June 2009 that the BTC pipeline had transported 621.8 million barrels of oil to Ceyhan since 2006. Reportedly, some Azerbaijani oil reaches U.S. markets.

⁷⁰ U.S. Department of Energy. Energy Information Administration. *Azerbaijan Country Analysis Brief*, December 2007.

⁷¹ The White House. The National Energy Policy Development Group. *Reliable, Affordable, and Environmentally Sound Energy for America's Future*, May 16, 2001.

A gas pipeline from Azerbaijan to Turkey (termed the South Caucasus Pipeline or SCP) was completed in March 2007, and exports initially are planned to be 233 billion cubic feet per year. The joint venture for the SCP includes Norway's Statoil (20.4%), British Petroleum (20.4%), Azerbaijan's Ministry of Industry and Energy (20%), and companies from Russia, Iran, France, and Turkey. Some in Armenia object to lack of access to the BTC and SCP pipelines.

The August 2008 Russia-Georgia conflict did not result in physical harm to the BTC pipeline or the SCP. The BTC pipeline was closed due to other causes. The SCP and the small Baku-Supsa oil pipeline were closed temporarily as a safety precaution. Russian gas shipments via Georgia to Armenia decreased in volume for a few days at the height of the conflict. Rail shipments of oil by Azerbaijan to the Kulevi oil terminal (owned by Azerbaijan) on Georgia's Black Sea coast were disrupted temporarily.

At the end of October 2008, the first oil from Kazakhstan started to be pumped through the BTC pipeline. Reportedly, about 70,000 bpd of Kazakh oil is being barged across the Caspian Sea to the BTC pipeline. In addition, some Kazakh oil is barged to Azerbaijan to be shipped by rail to Georgia's Black Sea port of Batumi. Kazakhstan plans to increase its shipments to Azerbaijan to 500,000 bpd by 2012.

Concerns of the European Union

Some observers argue that the completion of the BTC and SCP has boosted awareness in the European Union and the United States of the strategic importance of the South Caucasus.⁷² In mid-November 2007, Greek Prime Minister Kostas Karamanlis and Turkish Prime Minister Recep Tayyip inaugurated a gas pipeline connecting the two countries. Since some Azerbaijani gas reaches Greece, the pipeline represents the first gas supplies from the Caspian region to the EU. If a pipeline extension is built to Italy, this Turkey-Greece-Italy (TGI) pipeline could permit Azerbaijan to supply gas to two and perhaps more EU members, providing a source of supply besides Russia.

In March 2007, Azerbaijan and the United States signed a memorandum of understanding on energy cooperation that called for discussions on the proposed TGI pipeline and a potential EU-backed Nabucco gas pipeline from Turkey to Austria.⁷³ In June 2007 and at subsequent forums, Deputy Assistant Secretary Bryza has urged building the TGI and Nabucco gas pipelines and a trans-Caspian gas pipeline, so that Azerbaijani and Central Asian gas could be transported to Europe. He has argued that these routes would be more economical than routes through Russia. In August 2007, the U.S. Trade Development Administration granted Azerbaijan \$1.7 million to fund feasibility studies on building both an oil and a gas pipeline across the Caspian Sea to link to the BTC pipeline and the SCP. The Nabucco pipeline has faced numerous delays, some of them attributable to Russia's counter-proposals to build pipelines that appear to reduce the efficacy of the Nabucco pipeline and questions about supplies for the pipeline (see below). Latest EU

⁷² Jaba Devdariani and Blanka Hancilova, "EU Broaches Peacekeeping Possibility in Georgia," *Central Asia-Caucasus Analyst*, March 7, 2007; Rovshan Ismayilov, "Azerbaijan, Georgia and Turkey: Building a Transportation Triumvirate?" *Eurasia Insight*, February 7, 2007.

⁷³ The Nabucco Gas Pipeline International consortium was set up in 2004 by Botas (Turkey), Bulgargaz (Bulgaria), Transgaz (Romania), MOL (Hungary) and OMV (Austria). RWE of Germany joined in 2008. The consortium expects to spend \$11.1 billion on the Nabucco project.

planning calls for construction on the Nabucco pipeline to begin in 2010 and be completed in 2014.

Some analysts raise concerns that without a trans-Caspian gas pipeline, there will not be enough Azerbaijani gas to fill either the TGI or Nabucco pipelines, and argue that Iran also should be considered as a gas supplier.⁷⁴ Others suggest that Azerbaijan will be able to supply at least most of the needed gas for both the TGI and Nabucco pipelines, because of recent promising indications that there may be a huge new reservoir of gas off the Caspian seacoast. Highlighting this point, Deputy Assistant Secretary Bryza stated in March 2008 that “we now believe as an official U.S. Government view ... that Azerbaijan has enough gas to fill TGI, to launch Nabucco, and perhaps even to fill Nabucco.” He stressed, nonetheless, that the United States also backed a trans-Caspian gas pipeline as an additional source of supply for TGI and Nabucco.⁷⁵

At a meeting in early May 2009 in Prague, the EU, Azerbaijan, Georgia, Turkey, and Egypt signed a declaration on a “Southern [energy] Corridor” to bolster east-west energy transport. The declaration calls for cooperation among supplier, transit, and consumer countries in building the Nabucco gas pipeline, finishing the Italian section of the Turkey-Greece-Italy (TGI) gas pipeline, and other projects. Kazakhstan, Turkmenistan, and Uzbekistan refused to sign the declaration, a possible setback.⁷⁶ Richard Morningstar, the U.S. Special Envoy for Eurasian Energy, stated that the Obama Administration supported the “Southern Corridor” program and considered “Eurasian energy issues to be of the highest importance.” He endorsed an EU proposal to consider forming a private “Caspian Development Corporation” to assist Turkmenistan in developing gas fields and pipelines to transport Turkmen gas across the Caspian.⁷⁷ One difficulty hindering construction of Nabucco appeared to be worked out in late June 2009, when the EU announced that it had reached an agreement with Turkey and the members of the Nabucco consortium that permitted Turkey to drop its demand for the right to 15% of the natural gas pumped through the link at preferential prices, reportedly in return for some assurances on the security of supplies. An inter-governmental agreement on Nabucco is scheduled to be signed in Turkey on July 13, 2009.

Azerbaijan’s State Oil Company (SOCAR) and Russia’s Gazprom gas firm agreed in July 2009 that SOCAR would send 1.7 billion cubic feet of gas per year to Russia beginning in 2010. The gas would be transported by a 140-mile gas pipeline from Baku to Russia’s Dagestan Republic

⁷⁴ U.S. Department of State. *Transcript: U.S. Official Discusses Energy Security Agreement with Azerbaijan*, March 22, 2007; Associated Press, June 6, 2007.

⁷⁵ U.S. Department of State. *Trans-Caspian and Balkan Energy Security: Matthew Bryza, Deputy Assistant Secretary of State for European and Eurasian Affairs, On-the-Record Briefing with Greek Media*, March 18, 2008.

⁷⁶ Kazakhstan indicated on June 25, 2009, that it did not expect to have enough uncommitted gas to supply Nabucco. Turkmenistan’s reluctance to sign the declaration may not have reflected a lack of interest in a trans-Caspian gas pipeline. In April 2008, Turkmenistan had signed a memorandum of understanding with the EU to supply 353.1 bcf of gas per year starting in 2009, presumably through a trans-Caspian pipeline that might link to the SCP and to the proposed Nabucco pipeline. Perhaps buttressing Turkmenistan’s interest in a trans-Caspian pipeline, on the night of April 8-9, 2009, a section of a gas pipeline from Turkmenistan to Russia exploded, halting Turkmen gas shipments. Each side blamed the other for the explosion. About two weeks previously, visiting Turkmenistani President Gurbanguli Berdimuhammedow had failed to reach agreement with Russian President Dmitry Medvedev on Moscow’s financing for an east-west gas pipeline across Turkmenistan, to be linked to a proposed pipeline to Russia. Turkmenistan had then announced an international tender for the east-west pipeline to ensure “reliable and safe supplies of energy resources to world markets,” and hinted that the pipeline could link to a possible trans-Caspian pipeline to Azerbaijan and European markets.

⁷⁷ U.S. Department of State. *Press Release: Remarks at the EU Summit “Southern Corridor-New Silk Road,”* May 8, 2009.

that was used until 2007 to supply Azerbaijan with up to 282.5 billion cubic feet of gas per year. SOCAR indicated that the volume of gas transported to Russia could increase in future years. The small amount of gas initially involved is not expected to impact plans for supplying Nabucco.

Regional Energy Cooperation with Iran

On March 19, 2007, Armenia's then-President Robert Kocharyan and Iranian President Mahmoud Ahmadinejad inaugurated an 88-mile gas pipeline from Tabriz in Iran to Kadjaran in Armenia. Work was completed on the second section of the pipeline, a 123 mile section from Kadjaran to Ararat, in December 2008. The Russian-controlled ArmRosGazprom joint venture built this second section and operates the pipeline. Initial deliveries reportedly are 10.6-14.1 billion cubic feet of gas per year, with plans for more gas deliveries in future years. Some of this gas will be used to generate electricity for Iran and Georgia, but the remainder eventually may satisfy all Armenia's consumption needs, alleviating its dependence on Russian gas transported via Georgia.⁷⁸

At the end of 2005, Azerbaijan began sending up to about 35 million cubic feet of gas per day through a section of Soviet-era pipeline to the Iranian border at Astara in exchange for Iranian gas shipments to Azerbaijan's Nakhichevan exclave. In late March 2009, Azerbaijan's SOCOR energy firm announced that it was holding talks with Russia's Gazprom on the refurbishment of the gas pipeline from Russia to Astara (including the part now used by Azerbaijan), in order to facilitate a Russian gas swap arrangement with Iran.⁷⁹

**Table I. U.S. Foreign Aid to the Region,
FY1992-FY2007, FY2008, FY2009, and the FY2010 Request**
(millions of dollars)

South Caucasus Country	FY1992-FY2007 Budgeted Aid ^a	FY2008 Actual ^b	FY2009 Estimate ^b	FY2010 Request ^b
Armenia	1,746.08	62.634	52.3	34.86
Azerbaijan	753.26	26.841	24.946	30.135
Georgia	1,898.64	378.85 ^c	309.2 ^d	83.05
Regional	38.73	---	---	---
Total	4,436.71	468.325	386.446	148.045
Percent	13.6	64	67	29

Sources: State Department, *Congressional Budget Justification for Foreign Operations, FY2010*, May 12, 2009.

- FREEDOM Support Act and Agency budgets.
- FREEDOM Support Act and other Function 150 funds. Does not include Defense or Energy Department funding, funding for exchanges, Peace Corps, or Millennium Challenge Corporation programs in Armenia and Georgia.
- Includes Economic Support Funding of \$315.0 million (P.L. 110-329).
- Includes \$242 million in FREEDOM Support Act funding (P.L. 111-32).

⁷⁸ Platt's *Commodity News*, May 31, 2007.

⁷⁹ Alexander's *Gas and Oil Connections*, January 12, 2006; *Newsbase FSU Oil and Gas Monitor*, March 25, 2009.

Figure 1. Map of the Region



Source: Map Resources. Adapted by CRS.

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